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THIS MONTH'S COVER

When the line engraving reproduced on the front cover was drawn in 1853 Kansas City, Missouri, had been in existence less than twenty years. Already the eastern terminus on the Missouri River for the Santa Fe trade, it was also becoming a major outfitting point for emigrants travelling westward, impelled by the discovery of gold in California and dreams of new, unspoiled lands. . . . This print from the Phelps-Stokes Collection appears through the courtesy of the New York Public Library. . . . In the Civil War decade Kansas City grew amazingly, doubling its population three times. Steadily, but less spectacularly, it continued to expand from then on and in 1930 numbered 399,746 inhabitants. . . . With the city of the same name across the border, in the State of Kansas, it is the greatest Winter wheat market in the world and in stockyards ranks second only to Chicago. . . . The present city appears in the recent aerial photograph shown above, one of the great markets and transportation centers of the nation.

NESMITH

DUN'S REVIEW FOR AUGUST 1937

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GALLOWAY

A PHILOSOPHY OF ACTION FOR BUSINESS

WILLIAM B. WARNER

President, McCall Coporation

President, National Association of Manufacturers

Here an outstanding business leader discusses today's need for something more than rule of thumb guidance toward economic objectives and the place of business in solving such problems. This is one of a series of articles on problems of unusual importance to business, in which are presented personal opinions of men whose backgrounds and points of view have created decided, and often conflicting, convictions.

IT may appear a bit out of true character for a business man to write of a "philosophy of action." Yet business men, like other agents of science and art, must synthesize all the factors of knowledge and experience into basic guiding principles. Without such guiding principles, without this philosophy of action, the business man is like a mariner without a compass; he moves but he knows not whither.

Goods are produced for and distributed in a market. It is the market which determines the quality and quantity required, the price which can be charged before encountering consumer resistance, and the style preferences as they constantly change. It is the market which really simplifies the task of the manufacturer, because it either heaps upon him the rewards of the favorite or brutally destroys his enterprise and orders him into the scrap-heap of failures. It is in a competitive market that the genius of the business man finds its level.

Essentially, the American market is different from many other markets because the mass of American consumers have been trained by experience, by advertising, by competition among producers, to expect superior quality at a diminishing price. It was not necessary for the Brookings Institution to point to this truth—although I do not wish in any way to minimize the importance of the work of that great research body. When I say it was not necessary for them to point to that truth, I mean that every housewife in this country who buys oranges or soap, dresses or cantaloupes, radios or canned goods, every man who buys an automobile or house-building materials knows that truth.

Superior goods for comparatively lower prices has become the rule in the American market. When that

rule is broken business suffers, the consumer suffers, and the economic life of the nation becomes disorganized. It has been the operation of this rule which has made the mass production industries of this country possible, with unmeasured benefits not only to industrial workers, themselves consumers, but to other consumers as well—the farmer, the white-collar worker, the professional man, and all the other groups which make up our economy.

Take, as an instance, the automobile. In 1912 the average wholesale price of cars was in the neighborhood of $2,000. And only about 350,000 buyers appeared. Ten years later, in 1922, the automobile industry produced a vastly superior product for a price well below $1,000. The result? The American public purchased 2,400,000 cars, for the price was lower and more people could pay it.

MERCHANDISER, PUBLISHER, LEADER

A native of Hannibal, Mo., William Bishop Warner's first job was as stock boy for Edson, Moore & Company, Inc., of Detroit. He later became a salesman for this company and in 1898 left to become salesman for Brown-Durrell Company, of Chicago.

Eleven years later he went to Boston to become division merchandise manager of William Filene's Sons Company and in 1916 returned to Detroit with the J. L. Hudson Company. In 1919 he became president of the McCall Corporation in New York City. Under his leadership this company not only made money every year during the depression but actually expanded its business.

For many years he has been chairman of the executive committee of the American Woolen Company. Long active in the industrial leadership of the country, he was chosen in 1936 to be president of the National Association of Manufacturers and of the National Industrial Council.

So the pattern of progress continues to weave itself. In 1936, there appears the phenomenon of a still better car—far superior in performance, in economy, in beauty—and at a still lower price than in 1922. And last year, with 95 per cent of the cars sold at less than $750 wholesale, the automobile industry sold 3,797,897 cars.

Nor does the pattern end with the phenomenon of more and better cars at lower prices for more consumers. Other threads are woven into the picture, among them increased employment at higher wages; greater total profits, too.

Whereas the automobile industry employed about 50,000 men in 1912, and 290,000 in 1922, this great industry provided employment during the year just past for 460,000 workers. Keeping pace, hourly rates increased 265 per cent between 1914, the earliest year for which reliable information is available, and last year, when the industry paid the highest hourly rate for wages ever paid in this line of work.

Add to all this progress the hundreds of thousands of indirect jobs in allied fields provided by the continuing growth of the automobile industry, and the far-reaching results of making a better product at a lower cost become still further apparent. And the effect on wholly unrelated industries cannot be overlooked. In 1928 a man with $900 could purchase the average-priced automobile. But in 1937, the man with $900 can buy the average-priced car and still have some $200 with which to buy other goods and services. Thus, by this reduction in price and consequent large sales, the automobile industry has made possible an increase of many millions of dollars in the purchasing power of those who buy cars.

Automobiles are selected here as an easy example, because everyone knows that the point made is true. But other examples, such as packaged foods, radios, fountain pens, electrical equipment, and thousands of other commodities fall into the general category of goods with higher quality and lower prices due to increased consumption and mass production.

But mass production is not the explanation. Mass production is a process which our market forces upon the producer in keeping with our basic guiding principle that there must be superior goods at a lower price. This truism affects the problem further. The consuming market starts often with a small luxury group who can afford to pay for an expensive article. This small group often pays a high price for a commodity because of the "satisfaction value" of having something that few can afford to own.

AMERICAN business, however, has learned that production on that basis is unsound from the standpoint either of profits or of social value. The manufacturer therefore stimulates his market to increase the number of users. As that number increases, he is able to effect economies in production and distribution, so that the price decreases and the quality can be improved. Thus increasingly large numbers of consumers find the commodity within their price range.

There is a margin at which this movement stops. It is suggested that about one-third of the population of this country is unable to avail itself of the quantity and quality of commodities which we generally call the American standard of living. I do not know

whether that estimate is correct because no one has made a scientific standard of living census of the United States.

But this much is clear, that if that margin is pushed out an increasingly large number of people will enjoy a better standard of living. There can be no reason why every American willing to work should not be on the American standard of living. That should be our guiding principle, our philosophy of action—to arrange production and distribution, costs, wages, and profits, so that prices are low enough to increase consumption beyond the present margins—and thus to make it possible for every American to enjoy the benefits of the American standard of living.

Now this philosophy of action is neither novel nor revolutionary. It is no new conception of the rôle of American industry. In fact, we have been functioning on this basis since the great American industrial revolution which began in the 1890's and which developed the twenty or more basic industries of the country. Some of these basic industries, such as automobiles and electrical equipment, were actually created during this period.

Our growth in this direction, however, has been so rapid that we have been following a rule of thumb rather than a philosophy of business. The time has come to analyze what we have done, to review the errors of judgment and commission, to discover the exaggerations and incorrect applications, and then to synthesize our knowledge and experience into a functioning theory of business which will guide us as surely as mercantilism guided another era or as *laissez-faire* guided still another. In a word, we ought to know what we are doing and why.

The problems involved cannot be solved by any group as efficiently or as correctly as by business itself. When government attempts to find solutions, it involves basically economic problems in politics and in utterly unrelated psychological problems. When labor attempts to do it, undue and often unsound emphasis is placed upon the factor of wages.

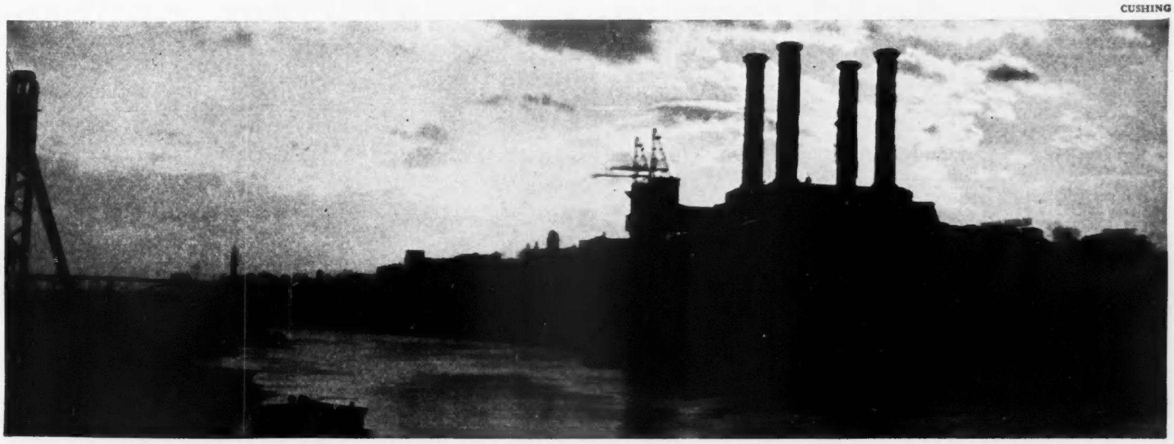
Admitting that the business man may stress the factor of profits unduly, he is nevertheless geared to consider profits in relationship to prices and prices in relationship to the response of the market. The American business man does not and cannot afford to think in terms of profit per unit, but he calculates his profits on the total business. He is therefore capable of thinking of the relationship of profits to the expanding market.

Less profits per unit often mean increasing profits for the total business. Therefore, the price per unit may be brought down without imperiling the success of an enterprise.

The business man must assume the obligation of applying this rule to all enterprise if the market for his goods is to expand to include that part of the American people who are today called under-privileged. It is sound business policy to see to it that there is no under-privileged group in America; that is, that there is no important part of the American people who are consuming less than the present average for the entire country.

I think that if we found and stated these guiding principles with truth and accuracy, if we avoided the complexities of specific instances and reached the simplification of an over-all truth, the consumer, the laborer, and management would find that they all agree. For what do they all desire? A greater volume of production, an increasing measure of consumption for every individual, an American standard of living.

CUSHING



ECONOMIC PLANNING VIA CHAIN-STORE TAXES

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NESMITH

Chain stores have changed during their years of growth. This attractive pottery counter is in one of the modern stores of S. H. Kress & Company.

DURING the twenties, the high and advancing level of economic activity kept the competition among various types of retailers from taking the center of the economic and political stage, although there was plenty of strong feeling just below the surface. Traditional market areas, centering around the cracker barrel, had been disturbed by the mobility of the automobile and the centripetal force of the motion picture theater. Chains of retail stores, a device which had been used in a limited way for decades (or even centuries, if one includes enterprises like the Hudson Bay Company) suddenly expanded with great rapidity to the dismay and distress of those engaged in the venerable process of manufacturer-wholesaler-retailer distribution.

After 1929, retail sales shrank rapidly. Not only did volume decline but price decreases further reduced the retailers' gross income, so that total sales in 1933 for all retailers were only 51 per cent of 1929, according to the Census of American Business. The number of retail outlets was only slightly reduced. Retail operating costs, which include many fixed items, were not very flexible. The result quite naturally was the aggravation of the competition between various elements in the marketing field, each struggling for an increasing share in the declining volume of business. The small independent retailer and his wholesale supplier were inclined to blame much of their difficulty on the chain store, the mail-order house, and the mass distributor.

In any case of intense competition, an individual or a group frequently finds its best strategy to lie in supporting some device which will penalize or embarrass its competitors. Thus, for example, the tariff has long been used as a method of penalizing those competitors who happen to be located in other countries. Taxes on particular products are frequently supported most vigorously by those who produce substitute commodities. In most cases the advocates of such restriction find justification for the regulation not only in their own advantage but also in various benefits to the community which will supposedly come from encouraging one economic process or group by penalizing another. Chain-store taxation belongs in this general category.

Spread of Taxation

The first attempt to deal directly with the chain-store problem was made by Maryland in 1927, when a law was enacted flatly prohibiting the extension of chain-store systems. However, in the following year, the law was declared discriminatory so emphatically that efforts along this line were discontinued in favor of regulation via taxation.

The last few years have seen about one-half the State legislatures levy some special form of tax on chain stores. In addition, the general tendency to use graduated bases of taxation for all enterprises according to size of capitalization, sales, or net income, is directed at all large enterprises, of which the chain-store group is an important element.

In general, chain-store tax legislation takes the form of a graduated license or occupation tax levied annually, the rate increasing according to the number of stores in the chain in the State. The following twenty-two States have chain-store taxes:

Alabama	Minnesota
Colorado	Mississippi
Florida	Montana
Georgia	North Carolina
Idaho	Pennsylvania
Indiana	South Carolina
Iowa	South Dakota
Kentucky	Tennessee
Louisiana	Texas
Maryland	West Virginia
Michigan	Wisconsin

The Texas law, which was to go into effect January 16, 1936, was stopped by a temporary injunction, which was made permanent July 3, 1936. At present, the matter is in process of court review. The new Pennsylvania law was met with several suits which are now in the temporary injunction stage.

While these twenty-two States do not include the great centers of population of New York, Illinois, and California,

the coverage cannot be regarded lightly. In 1935, they accounted for 44.4 per cent of all independent stores in the country and 38.2 per cent of all chain stores.

In several additional States, such chain-store tax laws have been on the books but are not now in effect. California has a constitutional provision requiring that any act of the legislature must be submitted to popular referendum upon petition of 5 per cent of the voters. A tax, which carried a rate of $500 per store for ten or more stores, was enacted to be effective September 14, 1935. Its operation was postponed, awaiting a referendum in November, 1936, at which time the law was rejected by nearly 60 per cent of those voting thereon. It is perhaps worthy of note that the Colorado law was approved by popular referendum in 1934.

In Arizona, a chain-store tax was replaced by a general sales tax in 1933, and several States,—such as Kentucky, New Mexico, Vermont, and Virginia—have enacted graduated sales taxes, since repealed or declared unconstitutional. In South Dakota, the 1935 chain-store tax law was declared unconstitutional in that it was an appropriation measure and had not attained the required two-thirds vote for such measures. The tax previously collected was refunded, but a new law was enacted with much higher rates (maximum rate increased from $10 to $250). The chain-store tax in Maine (maximum $150) was repealed April 24, 1937.

Laws Not Included

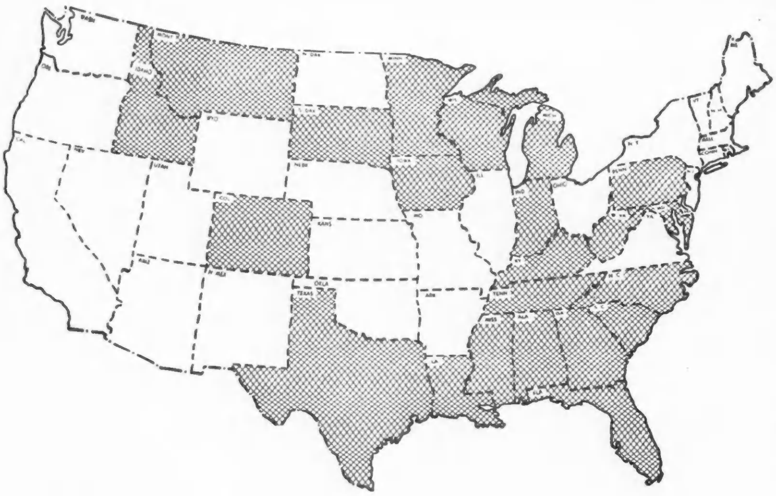
Certain other States are often listed as having tax legislation directed specially at chain stores. Virginia has a license system graduated according to sales on all wholesalers, and another similar tax on all retailers. The law makes this provision for chain operators, that a distribution depot (a warehouse) must have a separate license as a wholesaler and that shipments from this warehouse to the retail outlets are to be regarded as purchases by them. In other words, if a chain operator has a warehouse in Virginia, he must qualify both as a wholesaler and a retailer. The net result can hardly be regarded as special chain-store legislation, but rather as an attempt to prevent the chain store from obtaining a special advantage from the particular type of business license tax used in the State.

Likewise, Delaware is frequently included in lists of States with chain-store taxes, because of a special branch store license tax which must be paid by any concern having its principal place of business outside the State, but maintaining wholesale or retail activity within the State. Obviously, this would cover many chains. The license is $10 registration fee, and for sales where the cost is in excess of $5,000 a tax of 10

PHOTOS COURTESY A. & P.

ABOVE: *One of the early stores of The Great Atlantic & Pacific Tea Company.*

BELOW: *A modern store of the same company in about the same location as the early store shown above.*



In the twenty-two States (shaded on this map) that now have chain-store taxes there are 38 per cent of the chain stores. The Texas law is now being reviewed in the courts; tax collection has been restrained by injunction.

cents for each $100 of aggregate cost of goods sold. However, an ordinary citizen opening a single store must take out a general merchant's license costing $5, with the same sales tax, though it is stated in this particular law as one-tenth of 1 per cent of the aggregate cost. The chain-store law appears to be merely an attempt to treat chain stores consistently with other stores.

The Graduated License Tax

In general the character of the graduated license tax structure is like the surtax in the Federal income tax, the rate advancing for higher brackets but not affecting the lower brackets. Thus, in Indiana the rate for one store is $3. The next four stores must pay $10 each; the next five stores $20 each. Consequently, a chain of ten stores would pay $3 plus $40 plus $100, a total tax of $143. The maximum rate is reached at the twenty-first store, where the added tax is $150 per store.

However two States, Florida and Idaho, levy the tax on the chain rather than the store. The Florida chain-store tax rates follow:

Chain of	1 store......	$10 for each store
Chain of	2-3 stores......	50 for each store
Chain of	4-6 stores......	100 for each store
Chain of	7-10 stores......	200 for each store
Chain of	11-15 stores......	300 for each store
Chain of	16 or over......	400 for each store

The result of this structure is a very uneven increase in taxation. Considering chains up to eleven stores, the computed taxes are as follows:

Stores	Total Tax Bill	Added by Last Store
One	$10	$10
Two	100	90
Three	150	50
Four	400	250
Five	500	100
Six	600	100
Seven	1,400	800
Eight	1,600	200
Nine	1,800	200
Ten	2,000	200
Eleven	3,300	1,300

The maximum jump occurs when a chain with fifteen stores pays $4,500 tax and one with sixteen stores pays $6,400 tax, due to the higher rate on all fifteen stores resulting from the single addition of the sixteenth. In other words, the penalty for adding the sixteenth store is $1,900. The seventeenth store or more adds $400 each to the tax bill.

In Idaho, where the same principle is followed, the breaks are not quite so severe, due to a more finely graduated scale. Nevertheless, the tax on nineteen stores is $8,930 and on twenty stores is $10,000, an increase of $1,070. This method of computation thus leads to tremendous increases at certain specific points in the scale.

A further variation is provided by the Louisiana law of 1934, superseding the 1932 law. Rates were established upon the total number of stores in the chain anywhere in the United States, rather than the established practice of the number within the State boundary. Because of this peculiarity an injunction was obtained, and the issue was carried through the courts, with the Supreme Court decision reached on May 17, 1937 (*The Great Atlantic & Pacific Tea Company et al.* v. *Grosjean et al.*). The decision in favor of the tax was supported by a 4-3 vote, Sutherland, McReynolds, and Butler dissenting, and Van Devanter and Stone taking no part. Roberts gave the decision, the kernel being in the point that "If the competitive advantages of a chain increase with the number of its component links, it is hard to see how these advantages cease at the State boundary."

Other Types of Tax

A new variation has been introduced by Tennessee, in a law effective April 1, 1937, which declares that every store in excess of one shall pay a tax of $3 for each 100 square feet of floor space, or fraction, in each store. In measuring the tax base, only that part of the store devoted to sales to customers need be included, storage and window display space being excluded.

In addition to the licensing form of tax, several States enacted graduated receipts tax measures applicable only to chains. In 1935, Iowa enacted a gross receipts tax on chains, starting with receipts less than $50,000, where the tax was $25, and advancing on a percentage basis of 1 per cent on gross receipts of $300,000 and 10 per cent on receipts in excess of $9,000,000. Minnesota followed the same pattern less drastically, reaching 1 per cent of sales in excess of $1,000,000. New Mexico also had such a tax.

Taxes of this form did not meet with favor in the lower courts, and the issue

was decided by the Supreme Court November 9, 1936 (*Valentine et al.* v. *The Great Atlantic & Pacific Tea Co. et al.*). With Brandeis and Cardozo dissenting, the Court briefly declared the gross receipts tax invalid under the equal protection clause of the Fourteenth Amendment of the Constitution, as creating an arbitrary discrimination. This follows the precedent (*Stewart Dry Goods Company* v. *Lewis, Ky., 294 U. S. 550*) when the Court declared against graduated sales taxes, saying it is improper to exact from "two persons different amounts for the privilege of doing exactly similar acts because the one has performed the act oftener than the other. The prevailing opinion commits the court to a holding that a tax upon gross sales, if laid upon a graduated basis, is always and eventually a denial of the equal protection of the laws, no matter how slight the gradient or moderate the tax." Following this lead, the Iowa Supreme Court, December 15, 1936, declared its graduated receipts tax unconstitutional. Up to the present time, there is no record of any action similar to this, relative to the Minnesota law.

The Florida law, effective January 1, 1935, established a chain-store tax law requiring a payment of license fees and gross receipts taxes by all stores, both graduated. The Florida Supreme Court, in decisions rendered on November 26 and November 27, 1935 (*State ex rel. Adams et al.* v. *Lee; State ex rel. Lane Drug Stores, Inc.* v. *Simpson*), decided that the graduated character of the sales tax was improper. However, a flat sales tax being proper, the court left the first step of the graduation as applicable to all. One amusing aspect of this decision relates to the provision in the law which was to double the license taxes if the sales tax were declared unconstitutional. This provision was declared constitutional but inoperative, since the basic sales tax rate was valid and only the upper brackets were deemed unlawful.

It is now possible to summarize in tabular form the actual rates of the license tax in the various States. There is virtually no uniformity. The size groups vary from State to State as well as the rate applicable to each size. Consequently, the only method of making a comparison apart from giving the entire complex picture, is to compare the tax levied upon chains of various sizes in each State. The old and 1938 rates are both shown for Montana. The result is presented in the table below.

The Tax Rate

The result is certainly a bewildering complexity of separate and individual tax structures. The Indiana law has been taken as an example by several other States, because it was approved in a 5-4 decision of the Supreme Court (*State Board of Tax Commissions of Indiana et al.* v. *Jackson, 283 U. S. 527*). States like Colorado, while changing the figures involved, have used the Indiana text almost verbatim. Minnesota followed the Iowa structure not only in the license rates but also in including the graduated receipts tax. However, this is the only case where identical rates appear for two States. In eight States a filing fee of 50 cents per store is added to the tax bill.

Nevertheless, despite such occasional similarities, the differences remain the outstanding characteristic. In nine of the States, the first store is exempt from taxation. In the remaining thirteen States, the one-store tax is small, only three States requiring as much as $5, and Florida $10. The rate for the large chain ranges from a maximum fee of $112.50 in Alabama to $750 per additional store in Texas. But there is little evidence of any common understanding of what the traffic will or will not bear.

The variations are even more pronounced when one considers the number of stores which are required in order to apply the maximum tax rate.

Chain-Store License Tax Rates

Increase in Tax Bill Due to Last Store Added by Chain

	Number of Stores in Chain						
	1	2	5	10	25	50	200
Alabama	$1.00	$15.00	$15.00	$22.50	$112.50	$112.50	$112.50
Colorado	2.00	10.00	50.00	150.00	300.00	300.00	300.00
Florida (a)	10.00	50.00	100.00	200.00	400.00	400.00	400.00
Georgia	2.00	10.00	25.00	50.00	125.00	200.00	200.00
Idaho (a)	5.00	10.00	55.00	200.00	500.00	500.00	500.00
Indiana	3.00	10.00	10.00	20.00	150.00	150.00	150.00
Iowa	....	5.00	5.00	5.00	35.00	105.00	155.00
Kentucky	2.00	25.00	25.00	50.00	200.00	300.00	300.00
Louisiana (b)	....	10.00	10.00	10.00	15.00	20.00	200.00
Maryland	....	5.00	5.00	20.00	150.00	150.00	150.00
Michigan (c)	....	10.00	25.00	50.00	200.00	250.00	250.00
Minnesota (d)	....	5.00	5.00	5.00	35.00	105.00	155.00
Mississippi	....	2.00	10.00	20.00	75.00	300.00	300.00
Montana (present)	2.50	2.50	20.00	25.00	30.00	30.00	30.00
Montana (after 1/1/38)	5.00	50.00	200.00	200.00	200.00	200.00	200.00
North Carolina (e)	....	50.00	50.00	80.00	125.00	150.00	200.00
Pennsylvania (f)	1.00	5.00	5.00	10.00	50.00	100.00	350.00
South Carolina	5.00	10.00	25.00	50.00	125.00	150.00	150.00
South Dakota	1.00	5.00	5.00	15.00	100.00	250.00	250.00
Tennessee	Stores in excess of one taxed at rate of $3 per 100 square feet of floor space.						
Texas (g)	1.00	6.00	25.00	50.00	250.00	500.00	750.00
West Virginia	2.00	5.00	5.00	10.00	35.00	100.00	250.00
Wisconsin	....	25.00	25.00	50.00	200.00	250.00	250.00

(a) Tax based on all stores in chain within State rather than cumulative. See text. (b) Tax based on all stores in chain, including those outside the State. Tax increases to $550 on chains with over 500 stores. (c) Also special chain counter tax. (d) Also graduated receipts tax. (e) For chains in excess of 200 stores, rate is $225 per additional store. (f) For chains in excess of 500 stores, rate is $500 per additional store. (g) Collection enjoined.

The following tabulation shows the number of States which reach their maximum at each particular number of stores:

Stores Required for Maximum Rate	Number of States	Stores Required for Maximum Rate	Number of States
2	1	30	1
5	1	40	1
16	1	41	2
20	1	51	4
21	3	76	1
25	1	202	1
26	2	501	2

Under the theory of the graduated tax, the maximum bracket should indicate the point at which no further competitive advantages accrue to the chains. Quite evidently, each State legislature has had its own unique ideas as to just what it was endeavoring to do with or to the chain store.

Exemptions

Another element of difference appears when one compares the detailed laws of the various States as to the exact area of application. Many of the laws are based upon the word "store," with the result that bodies of administrative rulings are growing up as to such questions as whether or not a dairy farmer or a barber shop is a store. The Pennsylvania law specifically includes theaters in its coverage.

The laws frequently specify certain types of enterprises which are to be exempt from the operation of the tax. Thus thirteen States exclude filling stations, and three others, Montana, North Carolina and Wisconsin, include them at decidedly lower rates. The States which do not exempt filling-station chains are Colorado, Indiana, Iowa, Pennsylvania, Tennessee, and West Virginia. Alabama, Georgia, Iowa, and Wisconsin exempt ice plants, and Louisiana and Mississippi exempt public utility sales. Pennsylvania and Wisconsin exempt newsstands.

Seven States have somewhat more detailed lists of exempted types of enterprises, including co-operatives (Iowa, Montana, South Dakota, Wisconsin); lumber, grain, fuel, building materials, and the like (Georgia, Iowa, Minnesota, Montana, South Dakota, Texas, Wisconsin); State liquor stores (Iowa); farmers and gardeners (Iowa, South Dakota, Texas); hotels and rooming houses (Iowa); electric current and telephone service (South Dakota); natural and artificial gas (South Dakota); oil and gas well supplies and equipment dealers (Texas); second-hand automobile lots (Wisconsin); fertilizer (Georgia); beverages, malt and soft (Georgia); and tombstones and other marble products (Georgia). It should be noted that many other States may exempt these same activities through their administrative definitions of "store."

An unusual development to meet a special situation appears in an amendment to the Michigan law, added in 1935. It sets up a special rate of tax for "branch or chain counters," which are defined as counters situated on premises in which two or more separate business enterprises are carried on. The rates on counters are considerably less than for stores. Both start at $10 per unit, but the maximum rate reached at the number of twenty-six is $250 for chain stores and $25 for chain counters.

Another unusual provision is contained in the Georgia Act, which relates to "mail-order stores (not retail stores of mail-order houses)." A tax rate is established of $2,000 per year per store up to four stores, and $10,000 for each additional store thereafter.

The laws of North Carolina and Wisconsin provide somewhat lower rates for automobile service stations, and Montana has lower rates for filling stations, lumber yards, and grain elevators, and for those businesses in which less than 25 per cent of the gross business is in the sale of goods, wares, and merchandise.

As might be expected, there are many other interesting and individual variations among the laws. Two States use the tax as a method of enforcing collection of other taxes. Idaho permits a deduction of taxes paid on real property or improvements used in connection with the trade or business, not including taxes paid on inventory. And Indiana requires that male residents who are sole owners of stores and are between the ages of twenty-one and fifty must also submit a poll tax receipt with their application for a store license.

In most States, the receipts of the tax go directly into general revenue. However, in Georgia all except a 5 per cent allowance for administration and enforcement is to be paid "to the proper authorities of the eleemosynary institutions of Georgia." In Pennsylvania, the bulk of the receipts are designated for the State School Fund.

Legal Decisions

The legal situation with regard to chain-store taxation has been greatly clarified in the last several years, although there will always be particular problems and new twists which may need court review. However, the Supreme Court has declared itself on the main points involved. There is a strong line of decisions permitting the graduated scale of license fees following the general pattern of the Indiana law. As indicated above, the recent Louisiana decision permitted the use of a scale graduated according to the total units in the chain, both within and without the State. On the other hand, the use of the graduated receipts tax approach appears to be clearly improper. These decisions seem to establish rather clearly the legal proprieties and limits for chain-store taxation as far as Federal review is concerned.

Nevertheless, there will continue to be a variety of legal problems in connection with these laws. The recently enacted Pennsylvania law has been attacked as violating the equality clause in the State constitution, the same clause which was the stumbling block for a graduated income tax in that State. And there will always be problems of definition and classification long after the principles have been reviewed.

It is difficult to evaluate clearly the actual impact of these laws upon chain

Chain-Store Taxes and Chain-Store Growth

Comparison of Changes in Number of Chain Outlets and Proportion of Chain Sales to Total Retail Sales, 1933-1935, by States with and without Effective Chain-Store Taxes, December, 1935.

States with Taxes				States without Taxes			
State	Chain Outlets Per Cent Change 1933-1935	Chain Sales Proportion to Total 1933	1935	State	Chain Outlets Per Cent Change 1933-1935	Chain Sales Proportion to Total 1933	1935
			New England				
Maine	+ 9.1	18.5	19.6	Rhode Island	— 7.2	29.5	26.2
				Connecticut	— 6.8	27.5	24.5
				Massachusetts	— 4.6	30.8	28.9
				New Hampshire	+ .5	22.3	20.6
				Vermont	+ 5.8	17.6	18.3
			Middle Atlantic				
				New Jersey	—10.2	27.7	25.1
				New York	— 4.0	27.8	25.0
				Pennsylvania	— 3.0	29.0	24.9
			Eastern North Central				
Indiana	—23.3	27.0	24.3	Ohio	—12.6	28.1	24.0
Michigan	—14.7	30.0	25.3	Illinois	— 9.1	31.4	29.3
Wisconsin	—13.5	19.5	17.6				
			Western North Central				
Iowa	—36.4	20.8	17.7	Kansas	—20.2	21.3	17.8
Minnesota	—14.5	17.8	15.1	Nebraska	—20.0	17.9	16.5
				Missouri	—13.0	22.3	20.4
				South Dakota	—10.5	21.4	18.1
				North Dakota	— 3.7	18.2	15.9
			South Atlantic				
Florida	—19.1	24.9	22.2	Georgia	—13.7	21.3	18.7
North Carolina	— 6.3	22.0	19.8	Delaware	— 6.7	23.9	19.9
Maryland	— .9	20.4	19.2	Virginia	— .7	20.6	19.3
West Virginia	+ .6	21.9	21.3	District of Columbia	+ 5.1	28.4	29.7
South Carolina	+ 8.2	17.6	16.2				
			Eastern South Central				
Kentucky	—12.6	22.1	19.5	Mississippi	—31.4	12.3	11.1
Alabama	— 9.5	17.9	16.7	Tennessee	— 3.1	19.5	18.6
			Western South Central				
				Oklahoma	—31.0	22.4	21.4
				Texas	—26.7	19.2	18.0
				Arkansas	—18.9	14.1	12.3
				Louisiana	— 8.0	18.5	17.8
			Mountain				
Colorado	—26.8	19.6	22.3	Utah	—25.6	24.5	22.2
Idaho	— 1.0	23.1	19.9	Arizona	— 6.0	27.2	22.2
Montana	— .2	16.9	14.8	Nevada	— 2.2	19.0	15.2
				Wyoming	+11.8	15.4	14.7
				New Mexico	+13.1	16.1	15.9
			Pacific				
				Washington	— 1.9	21.3	18.7
				California	— .5	27.7	25.7
				Oregon	+ 5.1	19.3	17.7

organizations. Although several States had such legislation prior to 1933, that the Census records for 1933 show a gain over 1929 in the proportion of business done by chains in every single State in the Union, although there was a decrease of 5.0 per cent in the number of outlets. Since many of the acts became effective before the end of 1935, it is possible to examine them with a comparison of the 1933 and 1935 Retail Census records, as has been done in the table on this page. While there may be some technical reservations relative to the table, presumably all States, would be equally affected thereby.

That the presence of a chain-store tax does not necessarily revolutionize distribution in the State is illustrated by the strange case in New England. The Maine law, since repealed, was then in effect. To be sure, its maximum rate of $150 per store over twenty-five in the chain was relatively low. However, from 1933 to 1935 the number of chain outlets in Maine increased more than in any other New England State, and it was one of the four areas in the entire country in which chains increased their proportion of total sales over the period.

Three of the chain-store tax States which showed the greatest reduction in number of chain outlets, are cases where the law gave no exemption for filling stations, Indiana, Iowa, and Colorado. However, despite these reductions in outlets, in no one of these States was the decline in the proportion of total business done by chains particularly noticeable. In fact in Colorado, despite a decrease of 26.8 per cent in outlets, the share of total business done by the chains actually increased.

In general, one is impressed by the absence of correlation between taxes and trends. It is, of course, possible that the readjustments to the tax had not been made by the end of 1935, because the basic legal issues were still in controversy. It is reported (*Business Week*, June 19, 1937) that the enactment of the Pennsylvania law resulted immediately in The Great Atlantic & Pacific Tea Company's closing ninety outlets, American Stores' closing seventy, and P. H. Butler Company's closing fifty. It seems to be generally agreed that the laws are encouraging the scrutiny of stores to determine those which are clearly unprofitable, and the closing of many smaller, less promising outlets. It is interesting to note that many of the major grocery chains show some tendency to reduce their number, although their sales figures do not always follow the same trend.

A. & P. has declined from its 1930 peak of about 15,750 stores to 15,400; Kroger Grocery & Baking Company from its 1929 peak of about 5,500 to 4,240; and the National Tea Company from 1,625 to 1,220. Others in this field have not shown such declines, Safeway Stores and the Jewel Tea Company being near their peak levels. Woolworth, Kresge, Kress, Newberry, W. T. Grant, and J. C. Penney are at or near their high levels, as is the Melville Shoe Company chain. The Walgreen Drug chain is near its peak. On the other hand, the number of outlets in the United Cigar and Whelan Drug Store chain has been greatly reduced, its peak having been reached in 1922.

In addition to this general evidence, one cannot disregard certain specific straws in the wind. Perhaps the nearest to a bombshell was a correspondence between William T. Dewart of the *New York Sun* and John A. Hartford, president of The Great Atlantic & Pacific Tea Company, published as an advertisement in the newspapers of January 2, 1936. Mr. Dewart states as his understanding that the Iowa law (both license and receipts tax) would cost the company three times as much as it earns in the State, and asks what is going to be done. Mr. Hartford answers that a continuance of the "deluge" would force his company to form a voluntary and co-operative chain on a lease or agency basis, or to sell its retail stores and continue operation only as a wholesaler. There are a few cases in the record where such changes have taken place, though not exclusively in chain-store tax States.

Threat to Profits

It is interesting to note that the greatest revolution has taken place in petroleum distribution. At first, this seems odd since, as noted above, most States exempt such operations from the tax. However, Iowa made no such dispensation, and the result was that the major distributors in that State experimented with leasing their owned stations to independent operators. For various reasons, this arrangement proved so satisfactory that it has since spread to many other States where no special tax problem exists.

One can easily make estimates of the threat which these taxes are to chain profits. Perhaps the most severe assumptions which one can make would be the extension of the Louisiana tax to all States, which briefly would mean a burden of $550 per store per year. For the A. & P., with its 15,400 retail stores, the total would then be about $8,500,000, or slightly more than one-half its net profits as reported for each of the years ending February 28, 1935, and February 29, 1936. Safeway Stores, with about 3,350 stores, would be taxed $1,842,500, which may be compared with net profits for 1936 of over $4,150,000. However, for F. W. Woolworth Company, the largest limited variety chain, with its 2,000 stores, (some of which are in Canada and would therefore escape the tax) the total burden would be $1,100,000 against net profits in 1936 of over $32,600,000. J. C. Penney Company, taken to represent the general merchandise field, with nearly 1,500 stores, would pay $825,000 per year, compared with a 1936 net profit of about $19,000,000.

Similar computations for various other chains indicate that the tax will rest most heavily on the food and grocery chains. Even under the severe assumptions on which this compilation is based, it is obvious that these taxes

(Continued on page 47)

This miniature group showing the first F. W. Woolworth Company store in New York City was made by Ned J. Burns and is now in the Museum of the City of New York. The model shows the store and the people as they looked in 1897.

SYPHILIS IS BAD BUSINESS

THOMAS PARRAN
Surgeon-General
United States Public Health Service

USPHS—KRUTCH

To find syphilis, tests of the blood must back up the doctor's physical examination.

"THERE are thieves in the treasurer's office," John Jones, general manager, told his board of directors. "They are systematically stealing from the company and from the pay envelopes of the men. They have murdered a number of people, carefully staging the deaths so that they were ascribed to other causes."

"Oh, no!" Jones continued in answer to a question. "I have done nothing about them. They are low fellows with whom I would not care to associate. I really cannot give them social recognition by denouncing them."

Impossible? Perhaps so, for human thieves. But that is the story of syphilis in the community and in industry.

Let's look at the economics of syphilis. For a year now, the United States Public Health Service has co-operated with medical and civic organizations in telling about the disease. People know of America's 500,000 new infections and her 600,000 advanced cases of syphilis which report to doctors for the first time each year. But what do 1,100,000 cases of syphilis cost?

Item One in the ledger should be *Death*. There are 40,000 deaths every year from cardiovascular syphilis. Each death represents a loss of 19 to 23 years of life—call it 850,000 years of life expectancy lost. There are 4,500 deaths each year from paresis, general paralysis of the insane, and another 1,100 deaths from tabes dorsalis. These two account for another 100,000 years of life expectancy. Child deaths from congenital syphilis bring the figure well past the 1,000,000-mark.

These are merely lives. One can translate them into dollars only by figuring the loss in productive power. But wait! Life expectancy is money. Life expectancy is what insurance premiums are made of. And social taboo has made it "bad business" to take tests for syphilis, save for the very largest policies. What do syphilitic deaths mean to the average policy holder?

Syphilis is a disease of the young. Most infections start between the ages of fifteen and thirty. Syphilis has a long course. It kills ten to twenty-five years later, in middle life. During that most insurable period of life between thirty and sixty years of age it takes its largest toll of life expectancy. The life expectancy of a white man of thirty to forty-five is reduced by nearly one-fifth; the life expectancy of a man of fifty is reduced by one-sixth; if the syphilitic is still alive at sixty, his life expectancy is reduced by one-tenth.

Item Two in the debit column is *Medical Care*. The living cost us a good deal more than the dead. In State institutions we care for 18,700 cases of general paralysis. In all institutions, public and private, there are beds for 43,000 syphilitic mental and nervous cases. If all these cases were cared for at the $2 a day rate which is the average for public institutions, the cost would be more than $31,000,000. More than 8,000 new admissions are being made every year.

Not enough of our medical care goes into proper treatment in the early

stages of syphilis. Prompt cure would be the cheapest thing we could do with syphilis. The cost of treating a case of early syphilis from infection to cure would be somewhere between $50 and $600, depending upon whether it was done by the mass methods of a public clinic or by a high-priced specialist. Apply an average cost of $100, even, to our 1,100,000 annual cases of syphilis, and one has $110,000,000.

Fifteen per cent of all blindness is due to syphilis. At a conservative estimate we spend $10,000,000 for the institutional care of our syphilitic blind. America's 160,000 syphilitic heart disease patients are not ordinarily hospitalized, and the cost of their care cannot be easily estimated. Neither can the cost of home care for any of the other groups.

Item Three in the debit column might be *Operating Losses*. Just as all syphilitics are not dead, so all syphilitics are not in institutions, or under care at home. Most of them are on their jobs—ditch diggers, iron puddlers, plant bosses and bank presidents. What are the hazards that might mean loss? Well, here are a few cases. They are fictionalized a bit from numerous cases in the medical literature. But they illustrate the possibilities. I will leave the possible cost figures to the reader.

Arthur Green, laborer, in one of the early stages of syphilis had mucous patches in his mouth. He drank from the tin dipper in the water boy's bucket. Soon five of the crew had syphilis.

Jim Frank, foreman, fell from a scaffold and broke his leg. It didn't seem to mend, and the abrasions wouldn't heal. A blood test showed he had syphilis. He was out three times the expected period, and his compensation is still in dispute.

John Brown, engineer, ran through two red signals and crashed into the rear of a freight train, just as it was pulling into a siding. The autopsy showed paresis, a syphilitic softening of the brain.

Workers and Managers

Bill Jones, crane operator, died of internal hemorrhage. He strained himself running for a street car. Aneurysm, due to syphilis, was set down as the cause of his death. "Lucky for us he wasn't running a hot bucket over our heads just then," said Bill's friends at the foundry.

Sam Smith, general manager, set the plant to work on the company's biggest order. He said it was for the government of Venezuela. After two weeks the thing turned out to be "phoney." Sam had paresis. His case was not unlike that of Al White, the broker, whose brilliant corporate creations and scintillating salesmanship attracted wide attention just before they sent him off to the asylum.

There are not many such cases, not nearly so many as there used to be. There need not be any. For during the last twenty-five years we have learned how to treat syphilis. Today, if the patient comes in at an early stage in the disease, he can be cured with greater certainty than we can cure most other serious diseases. And 518,000 do come in early. Another 598,000 go to doctors late. They have a much smaller chance of cure, but their cases can be definitely arrested so stories such as the above need not be told.

The fact, however, that such things can happen illustrates that industry has a stake in stamping out syphilis.

It is a job which a group medical service, such as that of an industry, is particularly well fitted to perform. To find syphilis, laboratory tests of the blood must back up the doctor's external physical examination. The treatment of syphilis is a long, tedious process—seventy weeks of continuous treatment; it costs more than most wage earners can afford.

Some industries have already undertaken the attack on syphilis. Railroads are always alive to the problem of safety. Nearly two decades ago rail-

Change in Life Expectancy of White Males Due to Acquired Syphilis

	Complete Expectation of Life		Decrease Due to Syphilis	
Age	General Population	Syphilitic Population	Years	Per Cent
30	37.5	30.6	7.0	18.6
35	33.3	27.0	6.4	19.2
40	29.2	23.6	5.7	19.5
45	25.3	20.6	4.7	18.6
50	21.5	17.9	3.6	16.7
55	18.0	15.4	2.6	14.4
60	14.7	13.2	1.5	10.2
Av. Decrease	....	....	4.8	17.3

The figures for the syphilitic population are based upon data assembled for the Co-operative Clinical Group studies of syphilis and records obtained in surveys of urban and rural communities including 20 per cent of the population by Lida J. Usilton, M.A., Division of Venereal Diseases, United States Public Health Service.

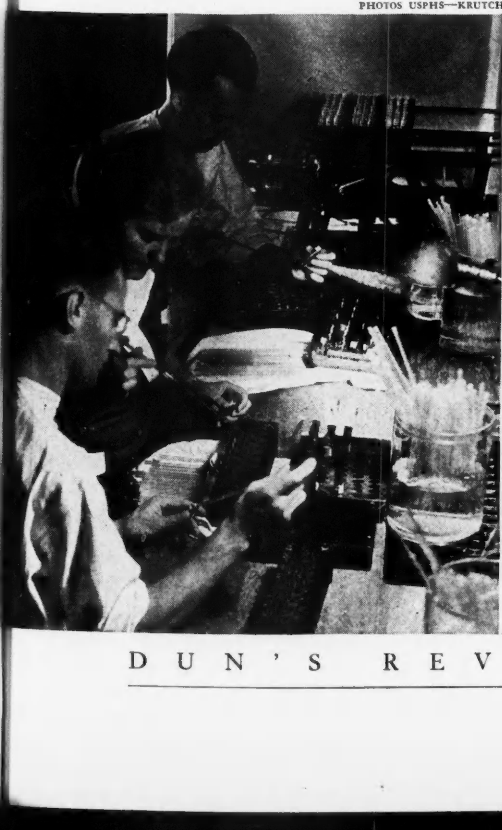
Left: *Treatment of syphilis has been highly perfected; in the early stages, cure is fairly certain.* Right: *A central laboratory can perform tests for physicians and clinics in many cities and States.*

road medical directors began to pay special attention to the disease. Studies were made by the United States Public Health Service officials and by Doctor John H. Stokes, then of the Mayo Clinic, on the problem of syphilis among railroad men. In 1926 the medical and surgical section of the American Railway Association drew up a recommended venereal disease control policy for the industry.

The United States Public Health Service has recently attempted to discover just how much work was being done in industry and what policies were being followed in carrying out this work. Interpretation of the results is not complete, but on the basis of incomplete returns these conclusions seem to be indicated.

Railroads still lead in the proportion of companies which conduct blood tests and in the relative number of employees examined. Slightly more than 10 per cent reported that serologic tests were part of the routine physical examination of applicants; 16 per cent perform the test as part of the periodic re-examination. Fifteen roads which employ 414,684 of America's 1,013,000 railway employees, have tested 119,535 employees. Three railroads report that all their employees have been examined. Half a dozen other roads report that upward of 30 per cent of

PHOTOS USPHS—KRUTCH



their workers have been tested. One railroad has examined more than 45,000 workers; another has examined 20,000; another 16,000; another 8,000.

Reports from nearly 150 miscellaneous establishments which have tested 150,000 workers and applicants are not sufficient upon which to generalize. The partial reports show a rate of syphilitic infection of about 6 per cent for railroads and 5 per cent for the miscellaneous classification.

The duPont Program

The syphilis control program of the E. I. duPont de Nemours Company might serve as a case study in industrial experience. Doctor G. H. Gehrmann, medical director, described his program in a medical bulletin of the United States Public Health Service.

DuPont employs nearly 37,000 workers in seventeen States. In 1934 it added to its medical facilities a central serologic laboratory for the taking of routine blood tests for syphilis infection.

"All new employees and as many old ones as would voluntarily submit to the test were examined," wrote Doctor Gehrmann. "Less than 10 per cent of the old employees refused the test. In all, 36,794 employees have been examined and 1,488 or 4 per cent found positive. . . . Positive tests have been checked with a second test and by tests done by an independent laboratory." There is nothing more imperative in dealing with syphilis than that no false diagnosis of syphilis be made.

"The results of the blood tests, whether positive or negative, are kept confidential between the employee and the medical division, except in the case of a person who refuses to take adequate treatment, in which case the department head is advised and the employee discharged." Says Doctor Gehrmann, "Sick leave is given infectious cases, but only to four classes of employees: Food handlers, handlers of food wrappers, employees handling lead compounds, and employees already suffering from late manifestations of syphilis."

The company has not undertaken to treat employees. It takes the blood test and verifies its accuracy. It instructs the patient thoroughly in the implications of his disease, the danger of neglect, the danger to others, the length and type of treatment necessary, the necessity of proper examination of family contacts. It gives him a thorough physical examination including examination of the urine, the determination of blood pressure, and X-ray of the chest, so that a full report may be made of cases in which treatment must guard against disturbing complications. The cases are then referred to the patient's private physician and all medical information in the hands of the company medical service made available to the private physician. The company merely follows the case to determine the adequacy of treatment.

"Through this follow-up of employees who have been referred to their own physicians for treatment . . . much has been learned of the difficulties which make the present plan of handling these cases unsatisfactory," says Doctor Gehrmann. Very few of the patients, he found, refused to take treatment.

Interestingly enough, it is not the patient, but the doctor who has most conditioned the success of the duPont policy. After instruction in the significance of the disease the patient is sent to his own physician who is given the essential information about the diagnosis. Few workers refuse or neglect to take their treatment, but high fees, quibbles over diagnosis, the administration of improper or inadequate treatment are not uncommon. Doctor Gehrmann's reasoned conclusion is: "It does seem advisable for the industry to take over the entire management of these patients and thus insure them continuous and proper treatment."

Officers and medical directors of corporations have conferred with the Public Health Service frequently in the past year on syphilis control programs and policies. Our suggestions to them

(Continued on page 45)

HOW HAS 77-B ACTUALLY WORKED?

AN ORIGINAL RESEARCH PROJECT BASED ON THE RECORDS OF CASES FILED UNDER THIS SECTION OF THE BANKRUPTCY ACT

DOROTHY S. DAVIS
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TWENTY minutes after President Roosevelt signed the 77-B amendment to the Bankruptcy Act, making the new provisions for corporate reorganizations a permanent part of our bankruptcy law, the first petition to reorganize was filed. Before the close of the day six more petitions were filed in the Southern District of New York alone. That was on June 7, 1934, and since that time thousands of corporations have sought to come under its provisions.

The course of bankruptcy legislation in this country has been one of increasing consideration for the debtor. With the enactment of the Bankruptcy Act of 1898 we had already come a long way from the idea that imprisonment was the only just fate of the person unable to pay his debts. The 1898 Act was fundamentally creditor legislation, since the ultimate of bankruptcy proceedings is liquidation of debtor's assets for the benefit of creditors. Section 12, however, did provide for composition and extension of debts, but was found to be increasingly inadequate for adjusting claims of secured creditors and stockholders of large concerns.

The only recourse of corporations was equity receivership, which terminated in the sale of assets through foreclosure. Reorganization was possible only if the old creditors and stockholders purchased the assets, transferred them to a new corporation and distributed among themselves the securities of the new company. No adjustment of secured debts without the sale of the security was possible.

With the increasing failures of very large concerns at the beginning of the depression, Congress foresaw the disastrous results on American business of great numbers of these equity receiverships which would ruin debtor and creditor alike through forced liquidation, and turned its attention to amending the Bankruptcy Act to provide for reorganization.

Section 77 provides for the reorganization of railroads and Section 77-B for business corporations. Of Section 77-B the Solicitor-General of the United States said, "The statute is designed to replace the cumbersome, expensive, and dilatory equity receivership proceedings under which corporations were compelled to reorganize prior to the enactment of this law, and to permit corporations on their own initiative or that of creditors and stockholders to effect a reduction of fixed charges and to scale down an excessive debt structure so that the corporation may continue its operations on a profitable basis."

This briefly is the course travelled to direct debtor legislation, which recognizes the necessity for fair adjustment between debtor and creditor, provides relief for the debtor, and saves the pride of American business men by avoiding the term "bankrupt," substituting therefor the term "debtor." It is felt that 77-B is "destined to play an important part in the readjustment and reconstruction of American industrial and commercial life."

What then is Section 77-B? Any corporation, except a bank, insurance company, municipality, building and loan association, or interstate railroad, may file a petition for reorganization under Section 77-B, declaring "that it is insolvent or unable to meet its debts as they mature and that it desires to effect a plan of reorganization." Pending court procedure is no bar to the use of 77-B, which means that companies can come out from under the costly and prolonged procedure of equity receivership and effect a speedy reorganization. Thus, of the six earliest petitions in the New York District three were already in bankruptcy and three under equity receiverships.

A Typical 77-B Case

Since the principal purpose of 77-B is the conservation of assets for the benefit of both debtor and creditor, all the provisions of the law are intended to lead to a fair and equitable adjustment. The petition to the courts may be voluntary, or involuntary upon the joint action of three creditors. A petition if filed "in good faith" is accepted by the judge and the company is at once under the jurisdiction of the Federal Court. It is protected against unfriendly action of creditors in any inferior court and its voluntary petition takes precedence over any involuntary action. The procedure in a typical 77-B case is somewhat as follows:

After acceptance of the case the judge may appoint a trustee or trustees to take over the assets and conduct the affairs of the company, or he may leave the debtor in possession of his business. All claims are filed and hearings held to establish the amount of approved indebtedness. Protective committees are usually formed to handle the affairs and to protect the interests of the different groups of creditors, that is, the various classes of bondholders and stockholders, and the unsecured creditors.

A reorganization plan may be submitted by the debtor or by any of the above groups. The court accepts the

plan if satisfied that it is "fair and equitable and does not discriminate unfairly in favor of any class of creditors or stockholders and is feasible." The next step is to secure written consent to the plan from two-thirds in amount of each class of creditors. Such consent leads to the final confirmation of the plan by the court and its execution by the debtor under the jurisdiction of the court. Final discharge of the company does not take place until the plan is completely consummated.

A satisfactory plan very frequently involves the formation of a new corporation and the exchange of new stock and securities for old. In such transfers bondholders often consent to become unsecured by the exchange of their bonds for debentures or stock. Stockholders may lose their equity entirely. The plan, on the other hand, may involve only an extension of maturity dates and change in interest rates and minor adjustments of claims.

Advantages of 77-B

The distinct advantages of 77-B over the old equity receiverships are fairly obvious.

1. The emphasis of the court is on the preparation, acceptance, and execution of a plan fair to all classes of creditors. In the older method the court had little interest in the final settlement.

2. All procedure is under the jurisdiction of one court and the trustee has control over all the assets of the debtor, wherever located. This does away with ancillary, or auxiliary, receivers in other districts, thus saving money and duplication of effort.

3. A debtor may be left in possession of his business. (This has turned out frequently to be of questionable advantage to all concerned.)

4. The minority creditors are bound by the consent of the two-thirds. Under equity receiverships, the unanimous consent necessary for approval of any final action was practically impossible and progress was hindered by the tactics of small minorities.

There are of course many other features of a strictly legal nature to intrigue the lawyers in whose hands lies the responsibility for carrying out the intentions of the law. With its continued operation, various technical weaknesses have naturally been disclosed and many suggestions have been made for its improvement.

Since the amendment was enacted, Dun & Bradstreet has collected detailed records of 77-B cases, in the hope that they would throw light on the operations of the law. Only from the actual record can it be determined whether or not some of the complaints that have arisen are justified. The following tables present material indicating the type and size of companies using 77-B, the length of time their cases have been in the courts, and the final disposition of the cases. The detailed analysis is confined to commercial and industrial cases and is presented according to the number of petitions filed in successive six-months' periods.

There were close to a thousand industrial and commercial companies which petitioned for reorganization in the first year, evenly divided in the two six-months' periods. (The first "six-months' period" is in fact from June 7—Dec. 31, 1934). From that time on through the end of 1936 numbers fell sharply. The six-months' period just ended brought an appreciable upturn in the number of cases. Throughout the entire period the proportion drawn from the various industry groups has shown but slight variation. Manufacturing cases have accounted for approximately half of all industrial and commercial cases, although in the last year they have been gaining slightly in importance at the expense of all groups but wholesale trade (see Table I).

In addition to these commercial companies, the 77-B procedure has been used by many real estate and holding companies and a scattering of such corporations as theaters, schools, clubs, hospitals, intrastate railroads, terminals, and steamship lines, for which the provisions of 77-B are particularly adapted since they are laboring under heavy funded debts and their securities are widely held by the public. The Dun & Bradstreet reporting service does not blanket this type of activity and therefore no claim is made for complete records of these non-industrial companies, particularly in the early periods.

The intent of the amendment was

I. 77-B Applications by Industry Groups

	Industrial and Commercial Cases										Total * Real Estate Hold'g Cos. Misc.
	Total		Manufacturing		Wholesale Trade		Retail Trade		Commercial Service and Construction		
	No.	%	No.	%	No.	%	No.	%	No.	%	No.
June-Dec. 1934 . . .	465	100	244	52	47	10	110	24	64	14	169
Jan.-June 1935 . . .	464	100	235	51	65	14	111	24	53	11	112
July-Dec. 1935 . . .	350	100	166	48	52	15	89	25	43	12	97
Jan.-June 1936 . . .	296	100	141	47	41	14	60	21	54	18	66
July-Dec. 1936 . . .	173	100	89	51	24	14	22	13	38	22	61
Jan.-June 1937 . . .	225	100	123	55	30	13	38	17	34	15	100

* Probably incomplete coverage of this type of non-commercial case in the early periods. They are not included in subsequent statistical analyses.

II. 77-B Applications by Capital Stock Size Groups

(Industrial and Commercial Cases)

	Total Cases		Capital Stock Size Groups: Under $25,000		$25,000-99,000		$100,000-499,000		$500,000-999,000		$1,000,000 and Over		Capital Unknown	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
June-Dec. 1934..	465	100	85	19	98	22	124	25	34	7	83	18	41	9
Jan.-June 1935..	464	100	130	28	136	30	103	22	24	5	42	9	29	6
July-Dec. 1935..	350	100	106	31	88	25	78	22	21	6	31	9	25	7
Jan.-June 1936..	296	100	74	25	90	30	64	22	22	7	27	9	20	7
July-Dec. 1936..	173	100	56	32	50	29	40	23	11	6	10	6	6	4
Jan.-June 1937..	225	100	83	37	65	29	42	19	13	6	14	6	8	3

to provide relief for large companies with substantial assets and widely held securities. It was not intended to be used by small private companies, for which adequate provision was made in Section 12 of the Bankruptcy Act through composition and extension. The claim is made that many small companies which should adjust their debts under Section 12 are using 77-B. The motive is principally to escape the stigma of bankruptcy, and if possible to remain in control of the business, rather than turn it over to a receiver.

In Table II the 77-B cases are grouped by size according to the amount of capital stock outstanding at the time of petition. Capital stock of course has no direct relation to the amount of indebtedness, but may be used as an indicator of size. A heavily capitalized company usually does not reach the courts until its indebtedness is large and a company with very small capital would usually not be allowed to run up a tremendous debt.

It would appear that with the continued operation of this amendment there has been a proportionately decreasing use of it by the companies for which it was intended and an increasing use of it by companies whose procedure should undoubtedly be within the provisions of the regular Bankruptcy Act. The smallest companies, capitalized under $25,000, have increased their representation in each successive period from 19 per cent to 37 per cent. Very large companies, which were already operating under equity receiverships or which would have had to resort to such receiverships, took immediate advantage of 77-B in large numbers. In the first six months 83 filed for reorganization. The numbers decreased in each succeeding period, to as few as 10, with an increase to 14 in the period just ended. In all fairness, it should be noted that something of the same tendency is evident also in the failures figures compiled by Dun & Bradstreet. Evidently, the general improvement in business has been reflected to a greater extent in the health record of large companies than of smaller enterprises.

III. 77-B Applications by Size and Character of Final Action

(Percentages—Industrial and Commercial Cases)

	Total Cases	Under $25,000	$25,000-99,000	$100,000-499,000	$500,000-999,000	$1,000,000 and over
Ordered to Liquidate *						
June-Dec. 1934............	27	45	34	23	20	15
Jan.-June 1935............	31	41	35	27	5	17
July-Dec. 1935............	32	43	36	33	10	10
Effecting Compositions and Extensions *						
June-Dec. 1934............	15	31	25	13	..	..
Jan.-June 1935............	25	44	32	17	..	..
July-Dec. 1935............	22	28	32	20	..	..
Reorganized *						
June-Dec. 1934............	53	17	35	58	80	81
Jan.-June 1935............	40	10	29	53	95	82
July-Dec. 1935............	41	23	25	42	85	90

* In addition to these three classes, about 5% of all petitions in each period were denied, withdrawn, or dismissed.

Disposition of Cases

Another way of approaching this question of the scope of 77-B is to study the court decisions to determine how many companies were actually reorganized and how many received a disposition which was possible in the bankruptcy court.

Liquidation is ordered in a 77-B case when the company is found to be hopelessly insolvent or when creditors are unable to agree upon a plan which the court considers fair. Inability to come to agreements is the cause of liquidation of most of the large companies. For the analysis, a case is considered composed when only unsecured creditors are affected, with no change taking place in the structure of the company. A company is considered to be truly reorganized when funded debts are adjusted, with or without change in corporate form.

All decisions regarding bankrupt or composed cases among those entered in the first six-months' period took place within eighteen months. The sample here studied includes only cases filed prior to December, 1935, so that no cases are presented where there had been less than eighteen months for some final action to be taken.

Table III shows plainly that, for many of the small companies, immediate bankruptcy would have been the

proper step to take. The record of actual reorganization accomplished improves with the size of company until we find from 80 to 90 per cent of the large companies emerging from the courts with their debt structure adjusted to allow continuation presumably on a profitable basis. Only a small percentage of the smallest size group was successfully reorganized. Since this group constitutes about 30 per cent of all cases, it pulls the total record down so that, after the first period, about two in every five applications were reorganized.

Time in the Courts

One of the primary purposes of the 77-B amendment was to provide prompt and efficient reorganization. There is no doubt that the law lends itself theoretically to quicker settlements, but some of the dissatisfaction expressed over the long-drawn-out equity cases now has been transferred to the delays in the courts under 77-B. Allowance must be made for the confusion that always accompanies the carrying out of new regulations. Lack of precision in the law itself has now and again led to long and expensive litigation to determine procedure. The rapid influx of cases at the beginning jammed the courts and overburdened the judges. Also, the courts have been cluttered with many small cases which have taken the time that should have been given to legitimate reorganizations.

It is now possible to determine how long companies of various sizes have been in the courts and whether, over a period of time, there has been any speeding-up of court action. Time in the courts is so largely dependent upon the good-will of the creditors, the good faith of the debtors, and the financial condition of the company regardless of size, that there always will be wide variations under any procedure. And it may well be that general business conditions may have a decided influence on the speed of finding a solution.

The length of time in the courts is here understood to be the number of months which elapsed between the date of filing of the petition and the date of final court confirmation of the settlement plan, and is determined by subtracting the month of filing from the month of confirmation regardless of the time within the month when these actions took place. Again it should be remembered that the cases enumerated here are industrial and commercial cases only and that a large share of the complicated and extended cases are those of real estate and holding companies.

The record—see Table IV—shows quite definitely that there has been a shortening of the time in the courts, and that in each succeeding interval a larger percentage of cases has been concluded in shorter periods of time. Especially is improvement shown in the proportion of cases completed in four to six months. This development is of course closely related to the increasing proportion of small cases, and of companies liquidated or composed. Conclusions as to experiences of companies of different sizes follow:

Small cases have been settled quickly since the start, and there has been but little change in time required for them. In the case of companies capitalized at between $25,000 and $99,000, where creditors are easily reached but insolvency or possibility of profitable operation is in doubt and trustees operate the business pending decision, there would seem to have been a very definite speeding-up. The percentage of cases concluded in the first six months has risen from 52 to 65 per cent. Also among cases capitalized at from $100,000 to $1,000,000, where there are different groups of creditors and stockholders to bring to agreement, settlements definitely appear to have been obtained with more speed as time progressed.

Among the very large companies, complicated both as to financial structure and legal procedure, the proportion of those settled in six months has also improved. However, it is clear that a considerable proportion of these cases cannot be settled within a year.

IV. 77-B Applications by Size and Length of Time in the Courts

(Percentages—Commercial and Industrial Cases)

Size Groups		1-3 months	4-6 months	Within 6 mos.	Within 1 year	Within 1½ yrs.	Within 2 yrs.	Within 2½ yrs.
Under	June-Dec. 1934.....	49	27	76	93	100	..	..
$25,000	Jan.-June 1935.....	48	25	73	93	97	99	99
	July-Dec. 1935.....	47	29	76	93	94	..	..
	Jan.-June 1936.....	43	31	74	86	..	..	..
$25,000	June-Dec. 1934.....	34	18	52	73	79	97	98
to	Jan.-June 1935.....	42	19	61	86	94	96	..
99,000	July-Dec. 1935.....	36	30	66	82	86	..	..
	Jan.-June 1936.....	31	34	65	85	..	..	..
$100,000	June-Dec. 1934.....	20	20	40	64	81	89	92
to	Jan.-June 1935.....	19	18	37	68	86	91	..
999,000	July-Dec. 1935.....	25	24	49	83	87	..	..
	Jan.-June 1936.....	25	25	50	75	..	..	..
$1,000,000	June-Dec. 1934.....	19	18	37	57	73	83	88
and over	Jan.-June 1935.....	17	12	29	69	81	93	..
	July-Dec. 1935.....	16	16	32	58	68	..	..
	Jan.-June 1936.....	15	33	48	55	..	..	..
All cases	June-Dec. 1934.....	28	20	48	71	83	92	94
	Jan.-June 1935.....	34	20	54	80	91	95	..
	July-Dec. 1935.....	35	26	61	83	86	..	..
	Jan.-June 1936.....	30	31	61	79	..	..	..

NOTE: In the early intervals there were a few cases, 10 per cent or under, which were settled within six months, but for which it was difficult to determine the exact length of time in the courts. These cases have been allotted to the first or second three-months' period according to the percentage of known cases falling into these periods.

(Continued on page 46)

NEW RATIOS: RETAIL EXPENSES IN THIRTY TRADES

WALTER MITCHELL, Jr.

Director of Retail Survey
Dun & Bradstreet, Inc.

SEVERAL thousand consumers, sprinkled in a thin sample across the map of the United States, have been taking a practical and intensive course in the cost of retailing during the past few years. These consumers are members of consumer co-operative societies, where they have been learning by experience—the oldest and most certain method.

Many consumers who had heard vaguely that retailers' margins on various types of goods ranged from 12 to 40 per cent of sales had treasured a feeling of injustice and a suspicion that someone was reaping unwarranted profits. Now they have had a chance to discover how little is left over after the costs of retailing are paid.

While there seems to be good reason to believe that consumer co-operatives will continue with us and enjoy a healthy growth, it is a safe statement that the ultimate effect of educating consumers regarding the troubles and costs of retailing will equal or outweigh the competitive threat of the co-operative stores. For instance, some groups of consumers in California are reported to have banded together in the high hope of saving 10 per cent on their groceries, and abandoned their enterprise when dividends amounted to only 3 or 4 per cent, not realizing that the average retail grocer enjoys a net profit of only about 2 per cent on his sales volume. Fortunately the majority of co-operative groups appear to have been more sagely advised by realists who launched their ventures with some knowledge of the inevitable cost of retail service.

What do retailers' expenses consist of and what is their trend? In last month's issue of Dun's Review, the gross margins, inventory turnover figures, and profits of thirty retail trades were analyzed, showing that the net return of retail enterprises in the majority of trades was substantially better in 1936 than in 1935. It was shown that these larger profits in spite of smaller gross margins were mainly the result of decreases in expense.

The figures calculated in the 1937 Retail Survey represent the experience of independent private enterprise. The vast majority of the contributors operate a single store and a few of them have as many as two or three branch stores. These retailers appear to be staging a satisfactory revival in step with the business cycle. In general, they show a little evidence of suffering from the competition of chain stores or the newly burgeoning co-operative movement. How and why did these decreases occur in the expenses of independent retailers? How do such decreases appear to be related to the character of the expense?

Twenty-four out of twenty-nine trades recorded lower total expense ratios in 1936 than in 1935. These decreases rarely represent a curtailment of dollar expenses. More typically they are instances where expenses have not advanced as rapidly as sales and resulting margins. No one expense item seems to have been the focus of the favorable experience. Contrary to normal expectancy, such "fixed expenses" as rent and taxes are mentioned less frequently in the tally of decreased ratios than the highly variable salary item and the miscellaneous expense item (which in this survey includes a large portion of the delivery and credit costs). The dollar cost of light and

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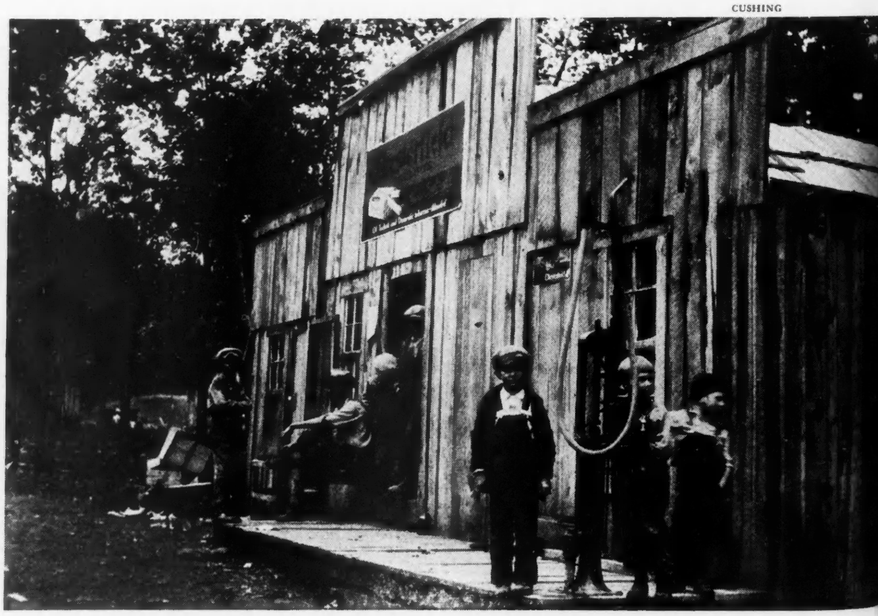


heat appears to have moved upward more nearly in step with sales volume than any other expense item, yet even here the number of trades with decreasing light and heat charges almost equals the number of trades with constant or increasing ratios.

Similarly, the large or small total expense burden of any particular retail trade is seldom entirely the result of wide variation in one of the expense items. An attempt will be made to point out those few instances where the peculiar behavior of one item has a substantial effect on the total.

Jewelry stores, which carry the largest total expense burden also report the highest ratios of any trade for advertising, next to the highest ratios for salaries of owners and officers, and the third highest ratios for rent. Beer and liquor dealers, who fall two-thirds of the way down the list of these thirty trades in order of total expense, nevertheless pay out the largest proportion of sales in taxes. Lumber and building material dealers, next below beer and liquor dealers sustain the largest bad debt loss ratio.

At the other end of the scale, feed, grain, and hay dealers, with the smallest

Trends of Retail Expense Ratios in 29 Trades, 1935-1936

(Figures indicate the number of trades)

	1936 Compared with 1935: Lower	Higher	Same
Salaries and wages—			
Owners and officers	18	10	1
Employees	19	10	0
Rent	20	4	5
Advertising	14	5	10
Light and Heat	13	2	14
Taxes	15	4	10
All Other Expense	20	9	0
Total Expense	24	5	0
Profit	5	22	2

total expense, also record next to the smallest rent and advertising expense. Grocery stores and grocery stores with filling stations, reporting total expense burdens among the four smallest, pay out the smallest ratio in employees' salaries and wages, a fact partly related to the small average size of store, but mainly to the kind of goods handled.

High rent ratios, 5 per cent of sales or more, are reported by stores in these lines: jewelry, children's ready-to-wear, women's accessories, and books.

Dealers in coal, lumber, and building materials commonly have the lowest rental cost recorded by any trade, 1 per cent of sales or less. Motor vehicle dealers and feed, grain, and hay dealers also commonly pay rent amounting to less than 1 per cent of sales, the former apparently because of high sales volume, in relation to rental space, the latter because country rents run low.

The impossibility of adapting the Retail Survey to the peculiar accounting problems of the several trades covered has made it necessary to classify under "all other expense" some rather sizable burdens which occur in only a few trades. In the four retailing lines —furniture, household appliances, coal, and building materials—this miscellaneous expense runs ordinarily from 6 to 8 per cent of sales. A large miscellaneous expense is likewise incurred by jewelry retailers in the maintenance costs of jewelry and watch repair facilities not readily charged under other headings.

As a percentage of sales, salaries of owners and officers vary widely from trade to trade and with little apparent relation to the ranking of trades by total expense. The same is true of employees' wages. If total salary and wage expenses in each trade are considered together, however it will be found that they rank in much the same order as when arranged according to total expense. Wages and salaries comprise about half or more of the total retailing expense in all but one of the trades examined; and in four cases labor cost is more than two-thirds of the expense.

The instances where the labor expense of a trade falls out of the expected order are likely to offer interesting commentaries on the costs of selling in those trades. Experience in analyzing schedules submitted by retailers does not indicate that these differences in wage and salary expense reflect any consistent tendency on the part of proprietors to withdraw more or less income from the trade than they would be able to make in other lines in the same neighborhood.

The four instances of relatively high labor expense suggest these explanations: (a) radio shops include considerable direct labor cost for repair

NESMITH

The Retail Survey figures represent the experience of independent private enterprises in many lines, of varying size, and operating under differing conditions. In general, total expense ratios were lower in 1936 than in 1935; expenses did not advance as rapidly as did sales.

Typical Expense Ratios in Selected Retail Trades—1936

(Percentages of net sales)

Trades (Listed in order of total 1936 expense ratios)	All Stores 1935 Total Expense	All Stores 1936: Total Expense	Salaries and Wages: Owners and Officers	Salaries and Wages: Employees	Salaries and Wages: Total	Rent	Advertising	Light and Heat	Taxes	Bad Debts	All Other Expense	1936 Profit (or Loss)
Jewelry	44.8	41.6	14.0	8.9	22.9	5.2	1.9	1.3	1.0	0.8	8.5	4.8
Radios (with repairing)	45.3	40.8	17.1	11.1	28.2	4.1	1.5	1.3	0.5	1.0	4.2	5.9
Furniture	33.1	32.5	7.7	8.4	16.1	3.6	1.4	0.9	0.8	1.0	8.7	6.6
Electric and Gas Household Appliances	32.9	31.0	8.9	9.8	18.7	2.0	1.4	0.7	0.4	0.6	7.2	4.7
Children's and Infants' Ready-to-Wear	29.0	30.8	9.9	5.6	15.5	6.9	1.4	1.2	0.5	0.6	4.7	0.4
Automobile Accessories and Parts	31.3	30.4	10.5	9.5	20.0	2.8	0.9	1.0	0.5	0.7	4.5	2.7
Women's Accessories	31.9	30.1	13.1	5.4	18.5	7.1	1.2	0.9	0.4	0.1	1.9	2.3
Books	31.3	29.8	9.9	7.6	17.5	5.0	1.1	0.8	0.5	0.2*	4.9	1.9
Shoes	29.5	28.7	10.7	6.8	17.5	4.5	1.6	1.1	0.6	0.3	3.1	3.7
Candy and Confectionery	38.1	28.6	10.4	6.5	16.9	4.6	0.4	2.7	0.4	0.4*	3.6	4.1
Drugs	29.8	28.5	9.6	7.4	17.0	3.3	0.7	1.7	0.9	0.4	4.5	3.0
Cigar Stores	25.6	27.7	8.6	5.9	14.5	4.6	0.3	1.4	0.7	0.7	5.5	2.4
Women's Ready-to-Wear	29.0	27.3	8.7	7.0	15.7	4.4	1.2	1.1	0.4	0.4	4.1	2.7
Men's and Boys' Clothing	27.8	26.4	8.5	6.2	14.7	3.5	1.5	0.9	0.7	0.6	4.5	5.5
Men's Furnishings	28.7	26.3	9.7	5.8	15.5	4.0	1.0	1.0	0.7	0.6	3.5	4.5
Lumber and Millwork	26.8	26.2	7.1	7.9	15.0	1.1	0.4	0.3	1.0	1.0	7.4	3.3
Limited-Price Variety	26.1	24.5	9.6	6.1	15.7	3.8	0.7	1.1	0.5	0.2*	2.7	6.6
Family Clothing	26.0	24.5	7.7	6.5	14.2	3.2	1.3	1.0	0.7	0.6	3.5	5.6
Coal	28.0	24.1	6.9	7.8	14.7	1.0	0.6	0.2	0.6	0.6	6.4	1.8
Beer and Liquor	20.5	23.9	9.7	5.3	15.0	2.6	0.5	0.9	1.5	0.2	3.2	1.9
Lumber and Building Materials	25.9	23.9	6.0	7.6	13.6	0.7	0.4	0.3	1.1	1.1	6.7	3.7
Dry Goods	24.6	22.9	7.2	5.9	13.1	3.1	1.0	0.9	0.7	0.5	3.6	3.5
Building Materials and Fuel	. . †	22.6	6.0	6.8	12.8	0.7	0.4	0.3	1.0	1.0	6.4	2.9
Filling Stations	22.0	21.0	9.6	5.3	14.9	2.9	0.3	1.2	0.4	0.5	0.8	2.3
Meat	21.9	20.6	6.4	6.0	12.4	2.1	0.5	0.9	0.2	0.3	4.2	2.7
Groceries and Meat	16.7	16.4	5.2	5.3	10.5	1.4	0.5	0.8	0.3	0.5	2.4	2.1
Groceries	15.7	15.8	6.3	2.9	9.2	1.9	0.5	0.7	0.3	0.6	1.6	1.7
Motor Vehicles	16.1	14.7	1.9	4.8	6.7	0.9	0.5	0.4	0.3	0.4	5.5	2.2
Grocery Stores with Filling Stations	14.4	14.1	7.3	2.9	10.2	1.5	0.2	1.0	0.3	0.6	0.3	2.6
Feed, Grain, and Hay	12.0	13.2	3.6	3.4	7.0	0.9	0.2	0.3	0.3	0.3	4.2	2.7

† Operating figures for Building Material and Fuel dealers were not compiled in the 1935 Retail Survey. * Not added into "total expense"; too few dealers reported the item.

work in addition to retail selling and storekeeping duties; (b) automobile accessory and parts stores are continuously offering more complete installation and adjustment services on the equipment they sell, thus adding to labor costs; (c) filling stations; also (d) grocery stores with filling stations, are likewise selling service labor.

Motor vehicle dealers offered the only instance where labor costs dropped appreciably below half of the total expense. The cause of the difference was discussed in the July issue.

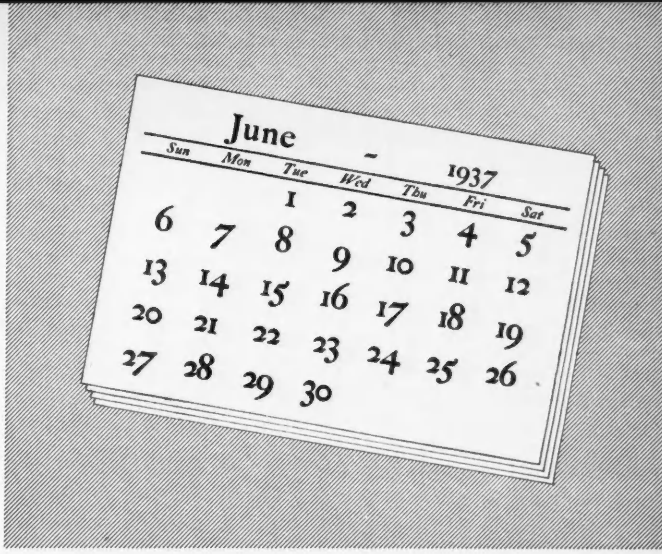
When the column of total labor cost ratios is scanned vertically the question arises as to why the figures for some of the other trades fall out of the expected sequence. Labor costs in cigar stores, furniture stores, and men's and boys' clothing shops dipped below the expected ratio, suggesting in one case a low selling cost on strictly standardized convenience goods and in the other cases the large average sales check in furniture and male apparel stores.

The labor cost ratio in limited price variety stores appears above its expected level where the proprietor's salary represents not only a large segment of the labor, but also his shrewdness in marking up novelty goods for a substantial profit. The high labor ratio in beer and liquor stores is mainly the result of proportionately high withdrawals by proprietors in a trade where the average store sells a small volume. The slight excess of labor cost over the expected ratio in coal yards comprises truck drivers' salaries reported under wage expense by most of the retailers.

A lower than average expense ratio is quite as closely associated with good management as with the external factor of returning prosperity. In all of the thirty trades analyzed here, the profitable group of stores operated on a lower expense ratio than the general average of the merchants reporting.

Chain-store competition has been the educational bludgeon in some trades, most notably groceries and drugs. After a painful but probably wholesome purging, which removed many of the inefficient, marginal enterprises, the progressive independent retailers have learned how to utilize modern merchandising methods, how to band together in voluntary groups and cooperative buying organizations. Many a manufacturer and wholesaler is farsighted enough to share his wisdom with the retailers whom he serves and to restrain them from overloading their inventories in the recurring periods of price optimism characteristic of this stage of the business cycle. These suppliers and their customers may properly look forward to a satisfactory business future despite those prophets of disaster who already grieve the passing of the small business man.

THE BUSINESS DIARY JUNE · 1937



Steel strikes in Michigan, Pennsylvania, and Ohio intensify labor situation. . . . As month ends workers are returning to jobs. . . . U. S. colleges graduate 150,000. . . . Black-Connery Wage and Hour Bill meets strong opposition and considerable revision is expected. . . . Blum Cabinet out of office, France goes off gold basis. . . . Russo-Japanese relations strained. . . . Supreme Court adjourns but continues to dominate newspaper, fireside, and Washington discussion.

1 Supreme Court agrees to review constitutionality of PWA power loans, but denies Government petitions to consider three leading cases involving public utilities prior to lower court action. Governor Lehman signs bill ending tax exemption of New York State officials. Chamberlain withdraws British profits tax plan.

2 Supreme Court adjourns one of the most exciting sessions in history.

3 President asks Congress to establish seven regional planning and conservation agencies on TVA model. Duke of Windsor weds Mrs. Wallis Warfield.

4 Strikes in Detroit and Pontiac automobile plants affect 15,000 workers.

6 Railroads in steel area request protection.

7 House votes two-year extension of PWA.

8 President asks $160,000,000 to subsidize new merchant marine.

9 Twenty-hour CIO power strike in Michigan ends.

10 CIO wins 91 per cent vote at Pittsburgh Steel. New strike ties up Chevrolet plants.

11 President signs measure creating congressional committee to investigate tax avoidance and evasion. Cambria workers join steel strike. Monroe, Michigan asks martial law. Commodity Exchange Act upheld by Federal Court of Appeals.

14 Senate Judiciary Committee recommends rejection of Court Reorganization Bill. President signs bill extending Connally "Hot Oil" Act two years. "Retail NRA" voted by National Retail Dry Goods Association. Strike of 4,000 in New York ties up eighteen shipyards. Bank of France raises discount rate from 4 to 6 per cent.

15 President reveals desire to balance national budget by increasing income of "submerged third" of population. President says companies making oral agreements should sign contracts. National debt passes $36,000,000,000 for the first time in U. S. history. British Imperial Conference adjourns.

16 Shipyard strike closes five big plants in New York. Germany and Italy rejoin International Non-Intervention Committee. Britain plans alternative 5 per cent profits tax for arms revenue.

17 Federal Mediation Board (Taft, Garrison, and McGrady) appointed to settle steel strike. Workers return to Cambria plant of Bethlehem Steel Corporation.

18 Federal Court restricts power of National Labor Relations Board in enforcement of collective bargaining negotiations. Treasury's inactive gold fund passes billion mark.

19 Martial law declared in Johnstown. Earle orders closing of Cambria steel plant. Bilbao finally yields to Spanish rebels.

21 Federal Court rules sit-down strike illegal. Lewis opens drive to unionize 800,000 Federal employees. President proclaims effective Fair Trade practice code for Bituminous Coal Industry. Blum cabinet resigns after Senate denial of fiscal powers.

22 International Labor Organization endorses forty-hour week for textile industry. Chautemps forms French cabinet. Louis defeats Braddock to win world title.

23 CIO calls "labor holiday" in Warren-Niles area. Germany and Italy withdraw from Four-Power Spanish patrol. President confers with Belgian Premier van Zeeland.

24 President signs new Railroad Retirement Act.

26 Thousands of steel workers return to work in Youngstown and Johnstown. National Labor Relations Board charges Ford with coercion and assaults.

28 "Vigilante" army forms to aid Ford. NRLB orders poll in AF of L-CIO feud in Toledo. President signs bill continuing CCC until June 30, 1940.

29 Steel Board disbands as mediation fails. Inland strike ends. Water mains dynamited at Cambria plant. France suspends gold and exchange payments; closes Bourse. Russia and Japan settle Amur Island dispute. President signs $1,500,000,000 Work Relief Bill.

30 President signs measure extending "nuisance" taxes and three-cent postage rate for two years. Serious tension between Japan and Russia results from border fracas including sinking of Soviet gunboat. Twenty-three shipping companies sign subsidy pacts. French Senate votes full fiscal powers to Bonnet.

THE TREND OF BUSINESS

PRODUCTION . . . PRICES . . . TRADE . . . FINANCE

Business starts the second half-year with activity at a high level, with improved business sentiment, and with a renewed faith in the strength of the underlying recovery forces. Spectacular monthly gains are now lacking, but the high levels were well maintained through May. Commodity prices and stock prices have both begun to recover somewhat from the decline of the second quarter.

BY any sort of all-inclusive general measure, business activity in June and in the first three weeks of July was maintained at the level of the Spring months. This is a high level by any kind of thinking. There have not been recently the spectacular gains over the preceding month that there were earlier. There could not be for long; successive monthly gains of 10 per cent would mean that an index stood at the end of a year at more than three times what it was at the beginning of the year. This can happen occasionally in single companies; it does not happen to business generally.

Industrial Production

Federal Reserve Board Adjusted Index
1923-1925 = 100

	1934	1935	1936	1937
January	78	90	97	114
February	81	90	94	116
March	84	88	93	118
April	86	86	101	118
May	86	85	104	*118
June	84	87	104	...
July	76	86	108	...
August	73	88	108	...
September	71	91	109	...
October	74	95	110	...
November	75	96	114	...
December	86	101	121	...

* Preliminary.

That important but intangible thing, the state of mind of business, seems to have changed for the better. Perhaps it is because people think that in legislation and in labor disputes there are less awful possibilities ahead; that some questions are somewhat settled, whether or not the settlement is entirely pleasing.

The rate of industrial production dropped in June. For March, April, and May the Federal Reserve Board's seasonally adjusted index stood at 118. During June and July both seasonal influences and industrial disputes brought about a mild slackening--perhaps of 2 per cent in June. In industrial production the first half of 1937 was about 18 per cent better than the first half of 1936.

The steel industry has recovered some of the ground lost during the strikes and is operating at a high rate for this time of the year but below the peak tonnage reached before the strikes. Work on unfilled orders keeps the volume high; buying by the automobile industry and by railroads is lower now. Orders for steel for 1938 automobile models will begin to be placed soon. Automobile production is lower, as is to be expected at this time of the year; moreover, in both April and May new passenger car

Factory Payrolls

U.S.B.L.S. Index—1923-1925 = 100

	1934	1935	1936	1937
January	54.6	65.0	73.8	90.7
February	61.3	70.0	73.7	95.8
March	65.6	71.7	77.6	101.1
April	68.1	71.7	79.3	104.9
May	68.1	69.4	80.8	105.1
June	66.0	67.4	81.1	...
July	61.4	66.5	80.2	...
August	63.2	71.0	83.5	...
September	59.1	73.7	83.6	...
October	62.2	76.4	89.0	...
November	60.7	75.6	90.7	...
December	64.2	77.6	95.2	...

registrations were lower than in 1936.

Textile mill operations slowed down slightly in May and June, but looked more promising in early July. Cotton mills are said still to have a backlog of orders, but a smaller one. Such lines as farm machinery, machine tools, tires, electrical equipment, air conditioning, and so on, are operating at very high production rates.

Electric power production has maintained a sizable lead over last year with consistent monthly gains. Railway freight traffic has increased sharply during the last few weeks. Construction seems to be gaining. Building permit values (see page 39) dropped in June and were well under June 1936 which was the highest month of 1936. Contracts awarded in 37 States (F. W. Dodge Corporation) were in June the largest for any month of the recovery period.

Through May employment and payrolls continued to reach new heights. The National Industrial Conference Board estimates that in May unemployment was less than in April by some 600,000 and has decreased 2,000,000 this year. Factory payrolls went to a new recovery high in May, according to the index of the U. S. Bureau of Labor Statistics and were 30 per cent higher than a year ago. Preliminary June figures indicate that both employment and payrolls dropped off in June, the payroll figure being 102.8—higher than any other recovery months except the preceding two.

Department Store Sales

Federal Reserve Board Adjusted Index
1923-1925 = 100

	1934	1935	1936	1937
January	73	76	81	93
February	73	77	83	95
March	76	79	84	93
April	76	75	84	93
May	75	74	87	93
June	73	79	87	..
July	73	80	91	..
August	76	77	86	..
September	74	81	88	..
October	74	78	90	..
November	75	82	94	..
December	77	83	92	..

The state of retail trade is commented upon in greater detail on the pages immediately following. Dun's Review Trade Barometer went up in March to 103.2 (It is not corrected for the changing date of Easter.) In April it dropped to 94.7; May was 98.6; and a tentative estimate for June reads 94.5. That trade activity in the larger centers has shown little increase or decrease over the seasonal expectations is confirmed by the adjusted index of the Federal Reserve Board which has stood at 93 for the four months, March through June.

Mail-order and store sales dropped from May to June as did rural sales of general merchandise—the latter more than seasonally. Chain-store sales increased markedly, seasonally adjusted figures going to a new recovery high. All three are well over the figures for June 1936.

Wholesale Commodity Prices

U.S.B.L.S. Index—1926 = 100

Week	March 1937	April 1937	May 1937	June 1937
I	86.1	88.3	87.4	87.1
II	87.2	87.9	87.3	86.7
III	87.6	87.6	86.9	86.5
IV	87.8	87.5	87.4	86.7
V			87.4	

Monthly bank debit figures for New York City and for the country were in June below the figures for June 1936 although both showed an increase over May. Bank debits outside New York City in June ran 6 per cent over last year and nearly 4 per cent above May.

Last year at about this time there began to be felt in retail trade the effects of the payment of the soldiers' bonus. Trade gains were, moreover, great during the first seven months of 1936. Comparisons with last year are therefore now showing smaller gains than heretofore.

Department of Agriculture estimates confirm the general conviction that this is a year of good crops at good prices with resulting happy effects upon retail trade in the rural areas, railroad traffic, agricultural machinery, mail-order sales, and so on. The carryover of old wheat is small and the estimates of the Canadian and the European crops not favorable. If total U. S. production runs to 850,000,000 bushels as now estimated, there should be a surplus of from 175,000,000 to 200,000,000 bushels for export to a waiting market.

The Department of Agriculture says of other farm cash income: "The volume of marketings of livestock will be smaller than in the last six months of 1936, when the drought compelled a considerable amount of liquidation of cattle and hogs, but this decrease in volume will be offset more or less by higher prices. The volume of dairy products will be somewhat larger than in the corresponding period of 1936, and income from these products may be slightly greater. Marketings and income from poultry products may be somewhat smaller."

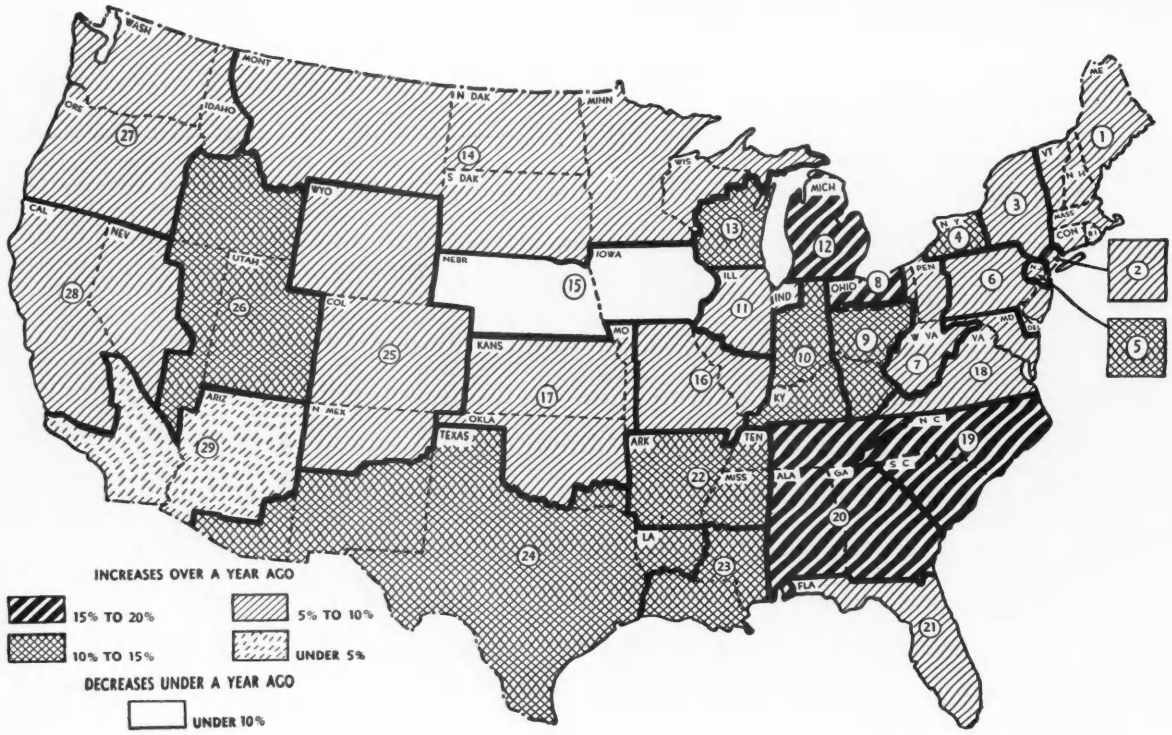
Industrial Stock Prices

Dow-Jones Index (Weekly Average)

Week	March 1937	April 1937	May 1937	June 1937
I	191.74	184.79	172.64	173.44
II	192.40	180.10	175.47	172.46
III	186.87	181.04	170.67	167.32
IV	183.01	180.51	171.63	168.89
V			174.40	

Commodity prices declined during most of the second quarter, but strengthened in the latter part of June and went up slightly during the first three weeks of July. July figures for the weekly U. S. Bureau of Labor Statistics—shown in the accompanying chart for the months March-June—are: week of July 3, 87.2; July 10, 87.7; July 17, 87.8.

The stock market has reflected the more cheerful business outlook—or perhaps, improved stock prices and a moderate increase in the volume of trading has had its effect on the business state of mind. Industrials have increased more than have other issues. July weekly figures for the accompanying chart are: July 3, 169.10; July 10, 177.27; July 17, 179.08; July 24, 183.22. Bond average prices went to a new low for the year at the end of June but rallied somewhat during the first week in July to a point around the levels of average prices in May; still well below the January highs.



TRADE STEADY IN SECOND QUARTER

From April to May the United States index rose from 94.7 to 98.6, but a preliminary figure for June indicates a drop back to 94.5. Trade Barometers for the United States and twenty-nine regions are prepared by L. D. H. Weld, Director of Research of McCann-Erickson, Inc.

THE United States Trade Barometer moved up about four points from 94.7 in April to 98.6 in May, and lost the same four points to a preliminary figure of 94.5 in June. The position of the May index, 8 per cent above May, 1936, was about in line with the April comparative of 7.2 per cent, but the June figure quoted above is only 3.7 per cent above last year, and the revision for a final figure is not likely to be upward. It is difficult to estimate how much June of this year suffers from a temporary unfavorable comparison with last year's period of bonus spending.

Month-to-month changes reflect temporary influences, such as weather, strikes, etc. They should be interpreted with these sporadic factors in mind. Although no absolute rule can be set, only a continued trend, upward or downward for three or four months, indicates significant change in the economic fortunes of the region. No such continuing trend was confirmed by the May figures.

The downward trend of consumer spending which seems to have occurred during the early months of 1937, was at least temporarily reversed by a slight rise in the May indexes for the majority of regions. The Iowa-Nebraska index resumed its 1937 downtrend in May after a mild reversal in April, but this figure (the only preliminary estimate among the May figures) may be revised slightly upward. This was the only region which closed the month below last year's index level.

Regional comparisons with May of last year reveal no striking changes from the April situation. The largest area of fairly favorable comparisons continued to span the South from Texas to the Carolinas, where higher cotton prices and favorable crop prospects are encouraging trade. Top gains over 1936 levels are shared with the industrial and automotive area in Michigan and northern Ohio.

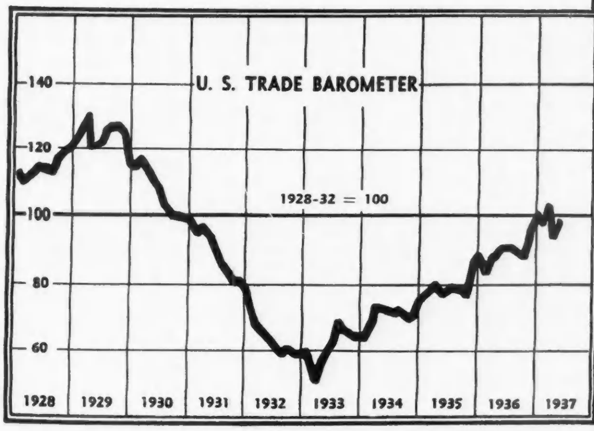
June and July reports from Dun & Bradstreet offices indicate that retail and wholesale trade remain about in line with, or a little below, May—after allowance for usual seasonal dullness. Recent inauguration of sales taxes in some States and cities have caused some flurries of anticipatory buying, with recoils after the effective date, but past experience elsewhere does not predict any permanent effect on the trend of trade.

Labor troubles were mentioned in June as a local trade dampener in 23 cities—an astonishing number, and were reported from sundry other points. In general, however, the virility of strikes in curtailing trade seems to have been less in June than during the Spring. Last minute reports from Dun & Bradstreet offices on July trends confirm this impression. Retail sales in the Ohio-Pennsylvania area, affected by the CIO strike on "Little Steel," appeared to be on the up-grade again by mid-July. The scaling down of relief allowances in some regions was reported to have a measurable adverse effect on sales of the lower grades of merchandise.

THE MAP AND CHART compare the May, 1937, indexes with those for the same month a year ago. In the column at the extreme right of the chart there is indicated the relative importance of the regions: the figures are percentages of national retail trade from the 1935 Census of Business.

THE INDEXES for the regions (charted, with U. S., from 1928, on pages 30-34; five months' figures on page 34) are composites based on: bank debits (Federal Reserve Board), department store sales (Federal Reserve Board), new car registrations (R. L. Polk & Company), and life insurance sales (Life Insurance Sales Research Bureau). In regions 2, 3, 4, 5, and 14, wholesale sales, and in region 2, advertising linage, which were found to make those indexes more accurate, are included. Each index is separately adjusted for seasonal variation and for the number of business days in each month. All are comparable. The monthly average for the five years 1928-1932 equals 100.

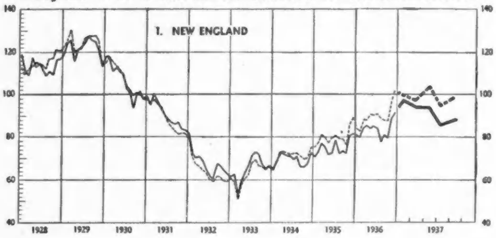
THE PARAGRAPHS printed opposite the twenty-nine regional charts quote figures for May based on samples of department stores reporting to the Federal Reserve banks; for June and July based on opinions and comments of business men in various lines of trade, gathered and weighed by the local Dun & Bradstreet offices in making up their estimates.



REGIONAL TRADE BAROMETERS

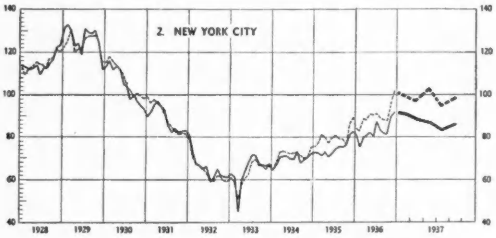
	Region	May 1937 Regional Index	May 1937 Compared with May 1936 (-10 0 +10 +20)	1935 Retail Sales (%)
	U. S.	98.6	+ 8.0	100.0
1	NEW ENGLAND	88.9	+ 5.7	7.8
2	NEW YORK CITY	86.1	+ 5.0	10.3
3	ALBANY AND SYRACUSE	97.1	+ 9.6	2.6
4.	BUFFALO AND ROCHESTER	89.2	+10.0	1.9
5.	NORTHERN NEW JERSEY	92.6	+11.0	2.9
6.	PHILADELPHIA	99.5	+ 7.8	6.2
7	PITTSBURGH	102.4	+ 7.0	3.7
8.	CLEVELAND	108.0	+15.1	2.9
9	CINCINNATI AND COLUMBUS	109.9	+13.3	3.1
10.	INDIANAPOLIS AND LOUISVILLE	109.7	+12.2	2.6
11	CHICAGO	101.3	+ 7.1	6.4
12	DETROIT	105.8	+16.0	4.0
13.	MILWAUKEE	105.7	+11.1	2.2
14.	MINNEAPOLIS AND ST. PAUL	102.8	+ 6.5	4.5
15.	IOWA AND NEBRASKA	82.8	− 6.2	3.0
16.	ST. LOUIS	97.2	+ 9.5	2.5
17.	KANSAS CITY	102.0	+ 9.2	3.6
18.	MARYLAND AND VIRGINIA	109.9	+ 7.3	3.8
19.	NORTH AND SOUTH CAROLINA	116.0	+15.2	2.1
20.	ATLANTA AND BIRMINGHAM	112.7	+16.3	3.5
21.	FLORIDA	114.9	+ 6.2	1.3
22.	MEMPHIS	96.7	+12.6	1.5
23.	NEW ORLEANS	101.4	+10.2	1.0
24.	TEXAS	115.3	+11.8	4.5
25.	DENVER	116.8	+ 8.8	1.3
26.	SALT LAKE CITY	106.9	+13.1	.8
27.	PORTLAND AND SEATTLE	98.9	+ 7.5	2.7
28.	SAN FRANCISCO	101.7	+ 6.2	3.4
29.	LOS ANGELES	97.9	+ 3.6	3.9

—Regional ---U. S. 1928-32=100 Corrected for Seasonal Variation



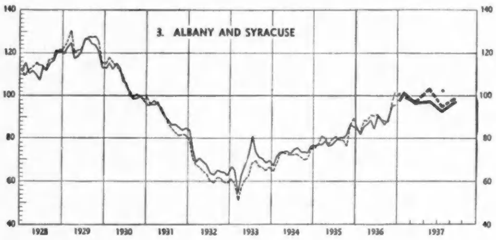
REGION 1: MAY, 88.9 APRIL, 85.3 MAY 1936, 84.1

May—Percentage department store sales increases over previous May: Maine 6, New Hampshire 2, Vermont 1, Boston 2, Providence 7, New Haven 6. June—Percentage retail trade increases over previous June: Bangor–Worcester 10, Portland 2, Boston 6, New Bedford 12, Providence 8, Hartford 5, New Haven 13; Springfield down 10. Wholesale trade changes: Boston +9, Portland even, Springfield —10. Production and payrolls steady in Portland and Manchester; up elsewhere. Cotton production slower. Strikes affecting Worcester industries. Larger tobacco planting in Connecticut. Collections generally steady; faster than last year in New Bedford, Bangor, New Haven. July—Boston wool strike settled; New Haven building trade up 20% over 1936.



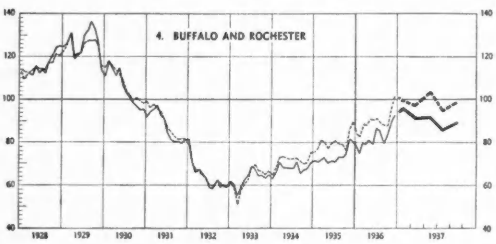
REGION 2: MAY, 86.1 APRIL, 83.3 MAY 1936, 82.0

May—Percentage department store sales increases over previous May: New York City 8, Bridgeport 15, Westchester–Stamford 6. New York bank debits down 8%, largest drop in any region. June—Percentage retail trade increases over previous June: Bridgeport 10, New York City department store sales 6, parcel deliveries 6. New York City employment down 3% from May, payrolls 2%. Increase of 5% in total sales volume of hotels. Under effect of sharp decline in Canadian shipments grain receipts 52% below last June. July—Cloak strike settled. Substantial increases over last July in retail sales of food and clothing. Wholesale groceries up 7%; cotton goods down 15%.



REGION 3: MAY, 97.1 APRIL, 92.4 MAY 1936, 88.6

May—Percentage department store changes from previous May: Syracuse +12, capital district +2, northern State —2, central State +8. June—Percentage retail trade increases over previous June: Binghamton 12, Utica 5, Syracuse 10. Albany down 5%; apparel lines slow. Albany wholesale trade up 5%. Payrolls and production better throughout; lagging behind last year only at Gloversville. Utica building supplies 50% above last June. Normal Summer lull in industry. Farm products good, although heavy rains delay planting and hay-cutting. Collections slower than last year at Gloversville; steady at Utica and Albany; prompter elsewhere. July—Berries and early fruits good; steady prices for farm and dairy products.



REGION 4: MAY, 89.2 APRIL, 85.7 MAY 1936, 81.1

May—Percentage department store sales increases over previous May: Buffalo 7, Rochester 8. June—Percentage retail trade increases over previous June: Buffalo 8, Jamestown 7, Elmira 5, Rochester 7. Credit sales on the installment plan are being extended to many lines of Buffalo retail trade. Elmira retail trade, especially women's wear, retarded by cold weather. Farm incomes 20% higher than last year around Rochester, 10% around Buffalo. Payrolls and production generally improved; steady in Rochester. Collections unchanged. July—Buffalo retail sales up 5% from year ago; factory production at a rate unequalled since 1930.

REGION 5: MAY, 92.6 APRIL, 87.2 MAY 1936, 83.4

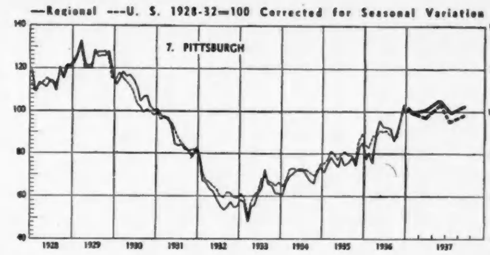
May—Northern New Jersey department store sales increased 8% over previous May. New car registrations up 13% over last May, with advance of 12% over April. June—Newark retail trade 8% above last June; wholesale trade up 4%. Continued upward trend in industrial production; electric, automotive and building trades in the lead. Labor tension, which has influenced textile and leather production, now materially relieved. Newark building up 27% over last June. Northern New Jersey bank clearings increased 33%, Newark 1%. Newark collections prompter than last year. July—Newark retail distribution normal for season; general business volume slightly below year ago.

REGION 6: MAY, 99.5 APRIL, 89.9 MAY 1936, 92.3

May—Percentage retail sales increases over previous May: Trenton 22, Philadelphia 9, Reading 9, Scranton 6, Wilkes-Barre 4, Wilmington 13. Harrisburg no change. June—Percentage retail trade gains over previous June: Allentown 11, Philadelphia 8, Reading 10, Scranton 10, Wilkes-Barre 10, York 8, Wilmington 5. Trenton down 5, Williamsport 10. Johnstown production and trade steady; strike settled. Trenton production up 20% over previous June, payrolls 25%. Philadelphia wholesale trade increase 16%; payrolls advance 35%, production 11%, building materials 50%; metals still leading in activity. Collections generally steady; slower at Scranton. July—Philadelphia department store sales about even with last year; typical Summer let-down in trade.

REGION 7: MAY, 102.4 APRIL, 99.4 MAY 1936, 95.7

May—Percentage increases in department store sales over previous May: Pittsburgh 11, Youngstown 23, Wheeling 8. June—Percentage retail trade increases over previous June: Erie 8, Pittsburgh 10, Clarksburg 10, Parkersburg 5, Huntington 15, Charleston 5, Bluefield 9. Erie wholesale trade up 10%, Pittsburgh 13%, but orders slow due to lower buying capacity in strike areas. Youngstown strikes curtailed trade 50%. Coal mines in Charleston area running short time. New steel orders at Pittsburgh falling off. Good volume in Charleston chemical and glass plants. Collections better than last year in Huntington, Erie, Bluefield, Clarksburg; poorer in Youngstown; steady elsewhere. July—Youngstown and Pittsburgh steel operations among highest July rates in history.



REGION 8: MAY, 108.0 APRIL, 100.5 MAY 1936, 93.8

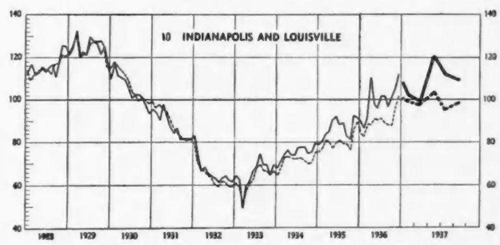
May—Percentage department store sales increases over previous May: Cleveland 12, Akron 14, Toledo 5. June—Percentage retail trade increases over previous June: Cleveland 10, Akron 12, Canton 30, Lima 5, Toledo 10. Wholesale trade increases: Cleveland 10, Akron 14, Toledo 12, with hardware and shoes leading. Strike-affected areas below these averages. Cool weather and heavy rains contributed to sales decline under last month. Production generally steady; steel 47% of capacity compared with 82% in June 1936, but gains in other industries sufficient to offset the decline. Toledo employment up 28% from year ago. Crop prospects good; rain retarded some planting. Collections steady. July—Steel mills reopening; crops reduced about 30% by rains.

REGION 9: MAY, 109.9 APRIL, 103.5 MAY 1936, 97.0

May—Percentage increases in department store sales over previous May: Cincinnati 15, Columbus 7. June—Percentage retail trade increases over last June: Cincinnati 15, Lexington 20, Dayton 20, Springfield 5, Columbus 10, Zanesville 10; Portsmouth down 5. Cincinnati wholesale trade increase 17%; Columbus no change. Crop yield good. Coal industry adversely affected by steel strikes. Cincinnati building behind 1936. Production and payrolls better than last year in Cincinnati, Lexington, Columbus; generally steady elsewhere. Collections prompter at Cincinnati, Columbus; steady elsewhere. July—Cincinnati retail sales 15% over 1936. Seasonal lull in wholesale lines; sales in mining regions showing greater decline than in rural sections.

REGION 10: MAY, 109.7 APRIL, 111.9 MAY 1936, 97.8

May—Louisville department store sales 18% above last May. June—Percentage retail trade increases over last June: Louisville 10, Evansville 5, Indianapolis 15, Fort Wayne 10. Sales in Louisville department stores lower than last year. Retail furniture volume even. Indianapolis wholesale trade up 5%, Louisville up 10%; hardware, electrical supplies, lumber up 15%. Wheat and corn crops good. Payrolls and production better than last year at Fort Wayne and Louisville; steady elsewhere. Collections generally steady; faster than last year in Fort Wayne. July—Indianapolis retail sales up 15% over last year; manufacturing steady but showing some indications of contracting.

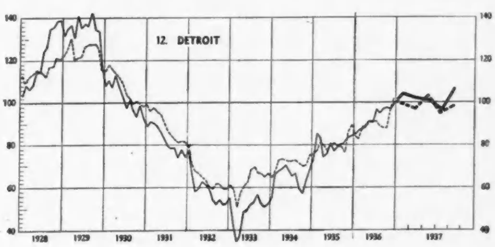


REGION 11: MAY, 101.3 APRIL, 98.0 MAY 1936, 94.6

May—Chicago department store sales 13% above previous May; payrolls of industrial concerns almost 50% ahead. June—Percentage retail trade increases over previous June: Chicago 10, South Bend 15. No change in Peoria or Rockford. Chicago wholesale trade up 5%; acute labor situation continues to retard sales. Strikes in Rockford tool, and iron and steel trades. South Bend Studebaker sales 15% ahead of 1936. Production and payrolls better in South Bend and Chicago; steady elsewhere. Excellent crop prospects, due to recent rains and good weather. Collections generally steady. July—Chicago retail activity maintained by hot weather; wholesale buying up sharply; record attendance at furniture show.

REGION 12: MAY, 105.8 APRIL, 97.0 MAY 1936, 91.2

May—Detroit department store sales increased 17% over previous May. Bank debits up 25%, largest increase of any region. June—Percentage retail trade changes from previous June: Detroit +11, Grand Rapids +10, Saginaw —10. Wholesale trade increases: Detroit 10, Grand Rapids 8. Production and payrolls improving; steady at Saginaw where short strikes have interrupted most local industries. Seasonal lull in Detroit automobile industry held off by backlog of orders. Grand Rapids refrigerator production lower; other industries active. Grand Rapids collections better than last year; steady elsewhere. July—Detroit retail sales up 12% over 1936 under impetus of hot weather. Automobile output curtailed by holiday.

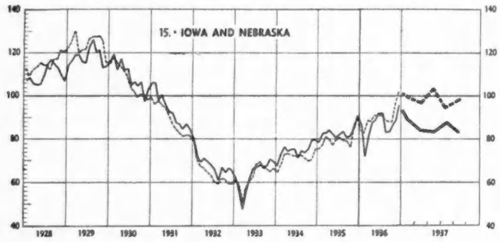


REGION 13: MAY, 105.7 APRIL, 106.7 MAY 1936, 95.1

MAY—Milwaukee department store sales increased 15% over previous May. JUNE—Percentage retail trade increases over previous June: Milwaukee 10, Madison 15, Green Bay 15. Milwaukee wholesale trade improved 5%. Payrolls and production up in Madison and Green Bay. Madison manufactures 40% ahead of last June. Slowing-up of orders in Milwaukee metal trades but backlog keeps production and employment steady. Potatoes, hay, and corn good, with favorable weather conditions; cherry crop about 8 times larger than last year's short crop. Dairy prices good. Collections prompter than last June. JULY—Milwaukee retail sales exceeded previous year's totals by almost 40%.

REGION 14: MAY, 102.8 APRIL, 103.5 MAY 1936, 96.5

MAY—Department store sales in the district increased 2% over last May. JUNE—Percentage retail trade changes from previous June: Duluth +5, Minneapolis +5, St. Paul +19, Sioux Falls–Butte even, Billings +5, Great Falls —10. Wholesale trade changes: Duluth +10, Great Falls —10. Butte copper production up. St. Paul trade retarded by one-week strike of truck drivers. Largest shipping tonnage in Duluth since 1929. Montana grain damaged by drought; Sioux Falls crop outlook best in several years, some grasshopper threat. Collections slower than last year in St. Paul and La Crosse; steady elsewhere. JULY—Business volume in Minneapolis below year ago; retail trade holding up well. Rust causing heavy wheat damage in North Dakota.

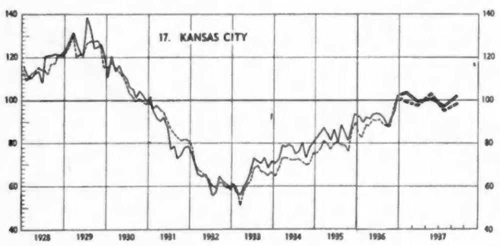


REGION 15: MAY, 82.8 APRIL, 87.6 MAY 1936, 88.3

MAY—Omaha department store sales down 4% from previous May. JUNE—Percentage retail trade changes from previous June: Burlington +10, Cedar Rapids +4, Davenport —10, Dubuque 0, Waterloo +2, Des Moines 0, Sioux City —5, Lincoln +4, Omaha —6. Production advancing; down only in Omaha. Furniture manufacture more active. Omaha and Sioux City meat-packing industries down. Corn prospects excellent. Payrolls advancing over last year in Waterloo, Burlington, Dubuque; down in Omaha; steady elsewhere. Collections slower only in Omaha and Dubuque; marked improvement in Cedar Rapids. JULY—Omaha retail business still below last year's level; income from Winter wheat crop expected to be stimulus to business.

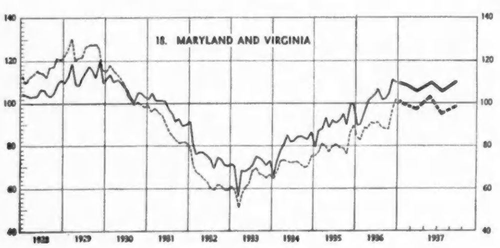
REGION 16: MAY, 97.2 APRIL, 94.6 MAY 1936, 88.8

MAY—Percentage department store sales increases over previous May: St. Louis 10, Springfield (Mo.) 9. JUNE—Percentage retail trade increases over previous June: St. Louis 12, Quincy 2, Springfield (Mo.) 2. Production and payrolls steady in Quincy and Springfield (Mo.); up in St. Louis, with steel and electrical products showing great activity. Corn and garden truck good; Winter wheat harvest in Springfield (Mo.) district best in years; rust causing heavy damage in other sections. Collections steady throughout. JULY—St. Louis trade active; department store sales during holiday week up 25% from previous week. Labor situation somewhat improved.



REGION 17: MAY, 102.0 APRIL, 97.4 MAY 1936, 93.4

MAY—Percentage department store sales increases over previous May: Kansas City 6, Wichita 34, Oklahoma City 3, Tulsa 12. JUNE—Percentage retail trade increases over last June: Kansas City 5, Wichita 10, Oklahoma City 20, Tulsa 5; St. Joseph down 5%. Oklahoma City wholesale trade up 10%. Oil production steady; little price variation. Harvest wheat yield best since 1931 in eastern Kansas; black rust in St. Joseph area. Payrolls and production generally firm with last year; Kansas City down. Tulsa collections improved; Kansas City slow; steady elsewhere. JULY—Wheat receipts heaviest for some years. Good Fall trade anticipated because of increase in farm income. Strike tension lessened.

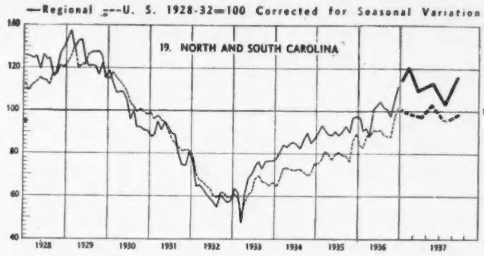


REGION 18: MAY, 109.9 APRIL, 105.6 MAY 1936, 102.4

MAY—Percentage department store sales changes from previous May: Baltimore +7, Washington —1, Virginia +4. JUNE—Percentage retail trade gains over previous June: Baltimore 10, Washington 2, Norfolk 5, Richmond 2, Lynchburg 7, Roanoke 5, Bristol 7. Wholesale trade increases: Baltimore 12, Norfolk 5, Richmond 6, with dry goods and shoes showing slight decreases. Richmond cigarette production continues high. Tobacco damaged by blue mold; other crops good; 15% increase in fruit yield expected in Roanoke. Payrolls and production up in Bristol, Norfolk, Baltimore. Collections faster than last year in Bristol and Baltimore; steady elsewhere. JULY—Baltimore retail trade up 12% over a year ago; seasonal let-down in business less evident than usual.

REGION 19: MAY, 116.0 APRIL, 103.5 MAY 1936, 100.7

May—Percentage department store sales increases over previous May: North Carolina 8, South Carolina 16. June—Percentage retail trade increases over previous June: Asheville 5, Winston-Salem 20, Charlotte 10, Raleigh 5, Charleston 5, Columbia 5, Greenville 10, Wilmington 5. Winston-Salem wholesale trade up 15, Wilmington up 5. Production generally improved; down only in Charlotte. Textiles and furniture plants continue active except for seasonal lull. Normal cotton and tobacco yields expected. Potatoes down due to competition of other sections. Collections steady; somewhat better than last year in Charlotte and Columbia. July—Charleston retail sales volume up 20%. Two new paper mills opened; Georgetown plant largest of its kind in the world.



REGION 20: MAY, 112.7 APRIL, 108.2 MAY 1936, 96.9

May—Percentage department store sales increases over previous May: Atlanta 13, Birmingham 18, Chattanooga 6, Nashville 12. June—Percentage retail trade changes from previous June: Atlanta +10, Augusta +5, Columbus +5, Macon +3, Birmingham +4, Montgomery +7, Chattanooga —10, Nashville —15, Knoxville-Mobile even. Wholesale trade increases: Atlanta 14, Birmingham 6. Strikes in textile mills and sharp drop in orders sent production and payrolls down in Nashville and Columbus. Lumber off. Peach crop very short. Collections faster in Birmingham, Atlanta, Augusta; steady in Mobile, Knoxville, Macon; slower elsewhere. July—Alabama cotton crop best in several years. Birmingham steel 96% of capacity. Gadsden mills to be enlarged.

REGION 21: MAY, 114.9 APRIL, 120.5 MAY 1936, 108.2

May—Jacksonville retail trade about 5% above same period last year; wholesale trade off 10%. June—Percentage retail trade changes from previous June; Jacksonville 0, Miami +7, Tampa —6. Wholesale trade increases: Jacksonville 5, Tampa 20. Building material and allied lines show consistent increases; Miami construction up 10% over last June. Citrus and vegetable season ending; closing prices good. Payrolls and production better in Jacksonville; steady elsewhere. Collections steady; in Jacksonville prompter than last year. July—Jacksonville retail trade continues slow, but collections are good. Pineapple production developing; good crop this season.

REGION 22: MAY, 96.7 APRIL, 98.7 MAY 1936, 85.9

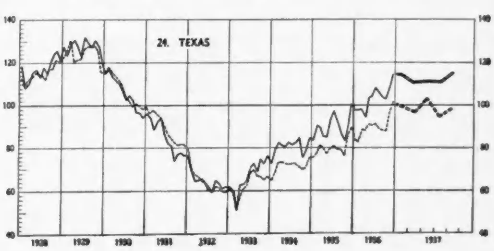
May—Percentage department store sales increases over previous May: Memphis 16, Fort Smith 12, Little Rock 9. June—Percentage retail trade changes from previous June: Memphis +15, Fort Smith +10, Little Rock even. Memphis wholesale trade increased 10%. Crop prospects good; weather favorable; yield in Fort Smith section 80% above last year; prices about 10% higher. Production down in Fort Smith; steady elsewhere. Furniture plants and sawmills most active in Little Rock. Collections generally steady; faster than last year in Fort Smith. July—Cotton prospects continue good; high rural income anticipated for the Fall.

REGION 23: MAY, 101.4 APRIL, 97.3 MAY 1936, 92.0

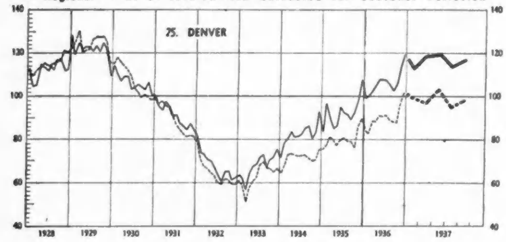
May—New Orleans retail trade 10% over last May. June—Percentage retail trade changes over previous June: New Orleans +10, Jackson —10, Meridian —10. New Orleans wholesale trade generally unchanged; petroleum products far ahead of 1936 Summer. Meridian production down; lumber showing sharp decline. Cotton prospects good. Unseasonal weather adversely affects truck crop. Payrolls higher in New Orleans; steady elsewhere. Jackson and New Orleans collections unchanged; faster than last year in Meridian. July—New Orleans department store sales down 8% from last year. Orders for Southern pine 1% below, production 12% above last year.

REGION 24: MAY, 115.3 APRIL, 110.9 MAY 1936, 103.1

May—Percentage department store sales increases over previous May: Dallas 9, Houston 20, San Antonio 10. June—Percentage retail trade changes from previous June: Dallas-Austin-Beaumont +5, Amarillo-Lubbock-Wichita Falls-Galveston +10, Fort Worth +8, El Paso —10, Houston +15, San Antonio —11, Shreveport —10. Wholesale trade increases: Dallas 10, Houston 15, San Antonio 8, Shreveport 15, Fort Worth 20. Wheat crop best in years; Rio Grande citrus and vegetable products largest in history; corn and cotton prospects above normal. Production and payrolls up in Dallas, Houston, Beaumont; down in El Paso; steady elsewhere. July—Dallas retail sales 10% over 1936; general demand for better class merchandise.



—Regional ---U. S. 1928-32=100 Corrected for Seasonal Variation



REGION 25: MAY, 116.8 APRIL, 113.6 MAY 1936, 107.4

MAY—Denver department store sales increased 9% over previous May. JUNE—Denver trade increases over previous June: retail 10%, wholesale 15%. Retail sales slightly retarded by weather. Albuquerque trade up 5%; improvement over May shown particularly in rural areas. Mills active in Albuquerque section; railroad business shows steady improvement; increased working force in local shops. Cattle and sheep prices good. Payrolls and production up in Albuquerque. Payrolls steady in Denver; production improving. Collections prompter than last year in Denver; steady in Albuquerque. JULY—Drought in eastern Colorado affecting crops and range; grasshopper plague in southeastern section.

REGION 26: MAY, 106.9 APRIL, 101.3 MAY 1936, 94.5

MAY—Department store sales in Salt Lake City and in the entire Utah–South Idaho district increased 14% over previous May. New car registrations up 7%. JUNE—Salt Lake City retail sales up 10% over previous June. Payrolls and production improved; metal mining ahead of last year; coal mining beginning to pick up. Electrical power output about 8% over a year ago. Crops and livestock good, with favorable range and water conditions. Poultry outlook not very promising. Collections improved in manufacturing and wholesale and retail trade. JULY—Department store sales slightly below last year; furniture sales volume 8% less.

REGION 27: MAY, 98.9 APRIL, 99.0 MAY 1936, 92.0

MAY—Percentage department store sales increases over previous May: Seattle 12, Tacoma 21, Spokane 11, Portland 9. JUNE—Percentage retail trade increases over previous June: Seattle 11, Tacoma 10, Spokane 6, Portland 17. Wholesale trade increases: Seattle 11, Portland 19. Production up throughout. Seattle fishing and lumbering hampered by labor difficulties. Tacoma department store strike threatened. Dairy prices better. Spokane wheat promises a good yield. Berry and cherry crops reported short 50%, prices favorable. Collections faster in Portland and Seattle; steady elsewhere. JULY—Seattle retail sales up 13% over previous year. Canneries in Tacoma section working full time with increased help.

REGION 28: MAY, 101.7 APRIL, 99.1 MAY 1936, 95.8

MAY—Percentage department store sales increases over previous May: San Francisco 10, Oakland 11. JUNE—Fresno retail trade decreased 10% from previous June; San Francisco–Oakland–Sacramento no change. San Francisco wholesale trade up 15%. Strikes continued in 18 leading San Francisco hotels and 57 United Cigar stores. Farm products and fruit good; crops later than usual; heavy planting of sugar beets to meet increased demand. Canneries active. Payrolls and production up in Oakland and San Francisco; generally steady elsewhere. Collections slower than last year in Sacramento; about even elsewhere. JULY—Summer lull in San Francisco retail trade; wholesale reports generally favorable. Hotel strike spreading.

REGION 29: MAY, 97.9 APRIL, 103.0 MAY 1936, 94.5

MAY—Los Angeles department store sales up 8% over previous May. Drop of 16% in new car registrations. JUNE—Percentage retail trade increases over previous June: Los Angeles 5, San Diego 15. Los Angeles wholesale trade up 10%; electrical products, hardware, building materials, gasoline showing best gains. Crop yields good; walnut crop exceptionally large. Continued demand ahead of production in San Diego aeroplane and fish-packing industries. Increased tourist trade expected. Payrolls and production advance throughout region. Collections faster than last year in Los Angeles and San Diego; somewhat slow in Phoenix. JULY—Los Angeles department store sales increases ranged up to 15% above last year; higher-priced merchandise leading.

REGIONAL TRADE BAROMETERS, JANUARY, 1937–MAY, 1937

REGION	U. S.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
May, 1937	98.6	88.9	86.1	97.1	89.2	92.6	99.5	102.4	108.0	109.9	109.7	101.3	105.8	105.7	102.8
April, 1937	94.7	85.3	83.3	92.4	85.7	87.2	89.9	99.4	100.5	103.5	111.9	98.0	97.0	106.7	103.5
March, 1937	103.2	94.5	87.0	97.0	91.8	93.2	99.5	105.8	109.4	114.3	120.5	109.6	101.3	110.5	99.1
February, 1937	97.2	94.8	88.8	96.2	91.2	91.6	89.3	100.8	103.9	110.2	99.3	103.8	102.4	106.1	99.9
January, 1937	100.0	96.8	91.4	101.5	95.7	90.7	90.3	99.2	101.0	101.1	101.7	112.2	104.4	111.2	101.9

REGION	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
May, 1937	82.8	97.2	102.0	109.9	116.0	112.7	114.9	96.7	101.4	115 3	116.8	106.9	98.9	101.7	97.9
April, 1937	87.6	94.6	97.4	105.6	103.5	108.2	120.5	98.7	97.3	110.9	113.6	101.3	99.0	99.1	103.0
March, 1937	83.2	92.7	100.5	109.6	113.0	117.5	115.0	112.8	103.0	111.0	119.6	105.6	105.5	98.7	103.1
February, 1937	84.4	94.9	99.1	105.9	109.9	114.0	115.3	93.5	90.2	110.6	118.2	102.4	94.3	100.2	102.0
January, 1937	88.5	99.0	103.6	108.4	120.5	115.7	121.6	99.5	103.2	114.6	112.9	98.1	94.6	99.9	101.1

SUMMARY OF INDUSTRIAL AND COMMERCIAL FAILURES

Number of Failures

	1937	1936	1935	1934
January ...	811	1,077	1,146	1,317
February ..	721	856	956	1,017
March	820	946	940	1,069
April	786	830	1,083	1,020
May	834	832	1,004	942
June	670	773	944	992
July	...	639	902	870
August	...	655	884	872
September .	...	586	787	771
October ...	...	611	1,056	1,039
November .	...	688	898	882
December .	...	692	910	933
Total U. S.	...	9,185	11,510	11,724

Liabilities of Failures *

	1937	1936	1935	1934
January ...	8,661	18,104	14,603	29,035
February ..	9,771	14,089	15,217	16,772
March	10,922	16,271	15,361	24,002
April	8,906	14,157	16,529	22,871
May	8,364	15,375	14,339	20,787
June	8,191	9,177	12,918	20,591
July	....	9,904	16,523	16,555
August ...	....	8,271	13,266	15,703
September.	....	9,819	17,002	15,552
October ...	....	8,266	17,185	16,973
November.	....	11,532	14,384	14,376
December .	....	12,288	15,686	16,981
Total U. S.	....	147,253	183,013	230,198

* In thousands of dollars.

Dun's Insolvency Index †

	1937	1936	1935	1934
January	46.0	62.8	66.7	77.0
February	48.4	56.4	66.0	67.3
March	44.9	53.0	55.0	60.4
April	46.4	50.3	63.5	62.4
May	45.4	46.3	58.8	55.4
June	39.3	44.5	57.5	58.4
July	...	38.2	52.8	51.2
August	...	36.2	49.8	49.5
September	...	33.4	50.0	48.8
October	...	35.9	61.8	60.7
November	...	44.3	59.4	55.8
December	...	42.6	53.3	56.6
Monthly Average	45.1	45.3	57.9	58.6

† Apparent annual failures per 10,000 enterprises.

ANALYZING THE RECORD OF INDUSTRIAL *and* COMMERCIAL FAILURES

BIG DECLINE IN JUNE FAILURES

INDUSTRIAL and commercial failures dropped 20 per cent in June, from 834 to 670. This is the most drastic movement that has occurred so far this year. For the first five months, the level remained high despite the usual downward seasonal pull. The sudden drop in June makes it less certain that an upturn in the failures trend has actually begun. Compared with last year, June failures are 13 per cent less. To find an equally low June figure one must go back to 1920, when failures were on a level comparable with that of the present time.

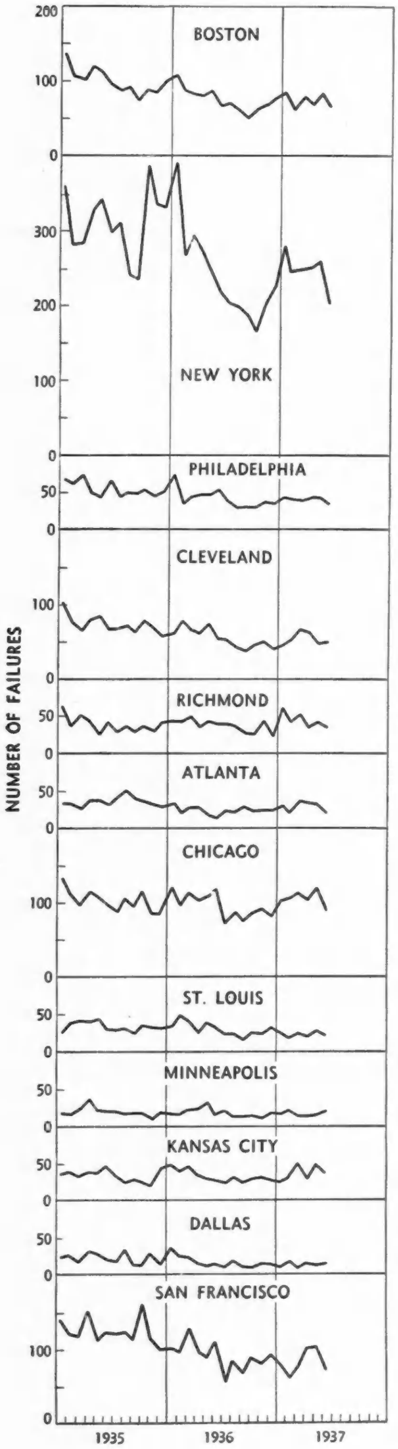
June liabilities amounted to $8,191,000. This is the lowest amount of liabilities involved in industrial and commercial failures in any month since 1920. Compared with May, however, it is a decrease of only 2 per cent compared with the drop of 20 per cent in numbers.

The insolvency index, which corrects original figures for the number of working days in the month and relates them to the number of firms in business, dropped from an annual rate of 45.4 failures to every 10,000 firms in business in May to 39.3 in June. This drop brings June in line with the usual seasonal behavior over a long period of years.

The recessions in June occurred in all industry groups, though most strikingly in retail and wholesale trade. In retail trade there were fewer failures among grocery and meat stores, drug stores, apparel shops, general stores, and automotive products; but little change in hardware and housefurnishing lines; and the usual Summer toll of restaurants. Movements were diverse in the various wholesale trade lines. The decline in manu-

Monthly Trend of the Insolvency Index

Failures in Federal Reserve Districts



Failures by Divisions of Industry—June, 1937 and 1936

(Liabilities in thousands of dollars)

	Number			Liabilities		
MANUFACTURING	June 1937	May 1937	June 1936	June 1937	May 1937	June 1936
Foods	33	37	35	452	588	509
Textiles	40	39	27	1,146	721	356
Forest Products	10	16	11	405	313	394
Paper, Printing and Publishing	5	14	13	133	157	147
Chemicals and Drugs	4	3	11	45	14	95
Fuels	3	5	3	203	56	78
Leather and Leather Products	6	5	8	162	146	244
Stone, Clay, Glass and Products	3	7	2	37	131	7
Iron and Steel	13	6	5	155	56	162
Machinery	2	5	7	30	98	228
Transportation Equipment	2	3	1	17	81	8
All Other	13	13	20	98	104	313
Total Manufacturing	134	153	143	2,883	2,465	2,541
Per cent of month's total	*20.0*	*18.4*	*18.5*	*35.2*	*29.4*	*27.7*
WHOLESALE TRADE						
Farm Products, Foods, Groceries	26	34	31	419	421	375
Clothing and Furnishings	7	6	5	58	84	34
Dry Goods and Textiles	1	3	3	5	23	95
Lumber, Building Materials, Hardware	3	4	5	113	57	137
Chemicals and Drugs	5	4	2	60	57	42
Fuels	1	1	3	9	13	82
Automotive Products	8	7	2	42	145	20
Supply Houses	2	5	4	31	61	240
All Other	13	22	17	372	427	388
Total Wholesale Trade	66	86	72	1,109	1,288	1,413
Per cent of month's total	*9.9*	*10.3*	*9.3*	*13.5*	*15.4*	*15.4*
RETAIL TRADE						
Foods	142	174	171	816	894	1,030
Farm Supplies, General Stores	16	28	11	192	211	103
General Merchandise	13	21	15	107	217	93
Apparel	55	92	90	545	578	558
Furniture, Household Furnishings	25	24	17	226	207	146
Lumber, Building Materials, Hardware	22	24	33	235	369	331
Automotive Products	26	43	28	304	272	335
Restaurants	50	48	47	410	391	294
Drugs	22	36	38	213	251	265
All Other	33	28	29	244	178	380
Total Retail Trade	404	518	479	3,292	3,568	3,535
Per cent of month's total	*60.2*	*62.1*	*62.0*	*40.2*	*42.7*	*38.5*
CONSTRUCTION						
General Contractors	6	9	4	75	93	36
Carpenters and Builders	11	9	15	230	140	635
Building Sub-contractors	22	32	14	168	317	302
Other Contractors	3	..	3	26	..	77
Total Construction	42	50	36	499	550	1,050
Per cent of month's total	*6.3*	*6.0*	*4.6*	*6.1*	*6.6*	*11.4*
COMMERCIAL SERVICE						
Cleaners and Dyers, Tailors	4	6	7	70	57	40
Haulage, Buses, Taxis, etc	7	8	12	258	225	97
Hotels	3	..	6	7	..	396
Laundries	1	1	2	7	35	31
Undertakers	2	5	4	33	44	35
All Other	7	7	12	33	132	39
Total Commercial Service	24	27	43	408	493	638
Per cent of month's total	*3.6*	*3.2*	*5.6*	*5.0*	*5.9*	*7.0*
Total United States	670	834	773	8,191	8,364	9,177

facturing was less marked than in trade, and increased failures occurred in some lines of activity, notably iron and steel. Spring failures were held up to a great extent by difficulties among retail apparel shops, which were subsequently reflected in failures among clothing wholesalers and manufacturers. The June record indicates an improvement in the retail clothing field, but no dropping off in failures among the manufacturing and wholesaling branches. This table indicates the changes since last June:

	June, 1937	June, 1936	Per Cent Change
Manufacturing	134	143	— 6
Wholesale Trade	66	72	— 8
Retail Trade	404	479	—16
Construction	42	36	+17
Commercial Service	24	43	—44
Total	670	773	—13

The decline in June failures occurred entirely among small concerns, with actual increases taking place in the number of failures in the two larger size groups. Failures with liabilities over $100,000 increased from four to seven. Five of them were manufacturers, with the result that the amount of money involved in manufacturing failures is larger than last month or a year ago. The comparison by size with a year ago is as follows:

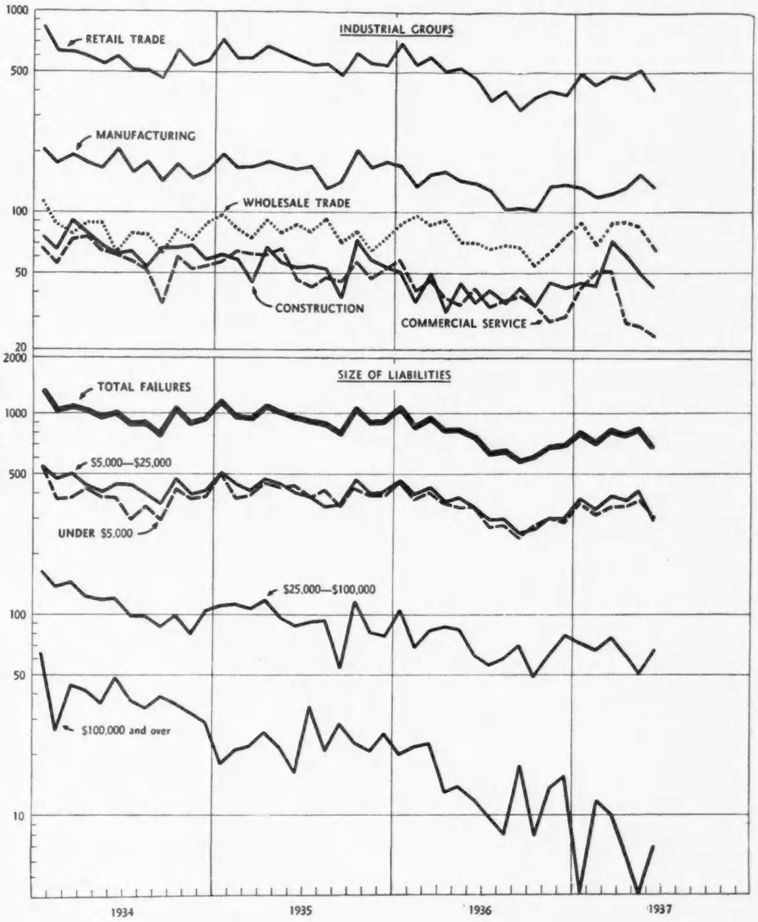
Liabilities	June, 1937	June, 1936	Per Cent Change
Under $5,000	304	349	—13
$5,000–$25,000	292	349	—16
$25,000–$100,000	67	63	+ 6
$100,000 and over	7	12	—42
Total	670	773	—13

An indication that the June decrease was not a freak movement is the geographical distribution of the month's failures. The decline was practically country-wide, with only the Cleveland, Minneapolis, and Dallas Federal Reserve Districts failing to show a decrease. There were scattered States where failures increased, notably Rhode Island, Iowa, and Washington. Pennsylvania and Ohio failed to share in the declines that took place in neighboring States in their districts.

The rate of decrease was equal in the large cities and in the balance of the country, but the cities bore less of the burden of potential losses, since many of the large failures took place outside the large cities. The cumulative positions of the Federal Reserve Districts is shown in the following table:

Federal Reserve Districts	Jan.-June 1937	Jan.-June 1936	Per Cent Change
Dallas	84	137	—39
St. Louis	142	224	—37
Minneapolis	106	133	—20
San Francisco	497	625	—20
Philadelphia	244	300	—19
Cleveland	326	397	—18
Boston	443	512	—13
New York	1,485	1,689	—12
Chicago	640	665	— 4
Kansas City	223	229	— 3
Richmond	273	258	+ 5
Atlanta	179	145	+23
Total	4,642	5,314	—13

Failures by Industrial Groups and Size of Liabilities



Canadian Failures

With only 76 cases reported in June, Canadian failures continued the slight downward movement in evidence since March. The total for the second quarter of 1937 was 243, compared with 296 for the first quarter. By industries, the decline was all in retail trade, construction, and commercial services, as failures in manufacturing and wholesale trade increased somewhat in the second quarter. Geographically, all Provinces showed decreases except Manitoba and Saskatchewan. Compared with the second quarter of 1936, there was a 26 per cent decrease.

Note: In Dun's Statistical Review there are published more detailed failure statistics by States, large cities, industrial divisions, size of liabilities, and special quarterly figures by industries.

77-B CASES AUGMENT FAILURE FIGURES

LITTLE CHANGE IN NUMBER SINCE APRIL

DURING the five weeks in June, applications for corporate reorganization under Section 77-B rose to 62. This appears to be an increase of ten cases over the numbers in the last two months, but expressed as weekly averages the figures show that there has been but little change since April in the number of companies seeking reorganization as a remedy for serious financial difficulties. The continued level is in contrast with the June decline in total failures, but more correctly should be compared with the increase in large failures.

77-B APPLICATIONS BY MAIN DIVISIONS OF INDUSTRY—JUNE, 1937 AND 1936

	1937			1936
	June	Second Quarter	First Quarter	Second Quarter
Manufacturing	24	57	66	61
Wholesale Trade	7	22	8	21
Retail Trade	5	22	16	21
Construction	1	1	3	4
Commercial Service	5	12	18	17
Others (*)	20	51	49	32
Total	62	165	160	156

(*) Not included in tabulation of commercial failures, such as real estate and investment companies.

The accompanying table, by industry groups, presents June cases and those for the quarter just ended as compared with the first quarter of this year and with the second quarter of 1936. There has been little change in total numbers in the different quarters, and the distribution of cases among the industry groups was quite similar in the current quarter and a year ago. The proportion contributed by both wholesale and retail trade remained the same, but real estate and financial companies gained 10 per cent at the expense of manufacturing, construction, and commercial service. Over a third of all cases, and about one-half of commercial cases, are quite consistently from manufacturing. Within all groups cases are well distributed over the various fields of activity. The coal industry, including both mining operations and distribution, contributed nine cases this month. A more detailed industry breakdown of quarterly figures is given in the current issue of DUN'S STATISTICAL REVIEW.

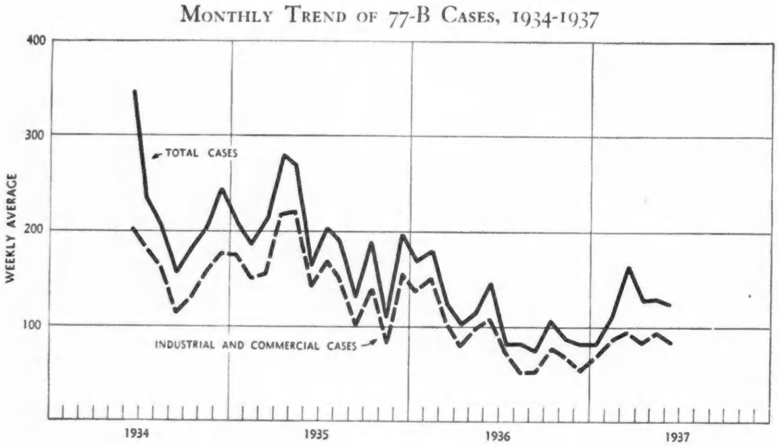
The forty-two commercial and industrial cases entered in June offered some interesting material. Forty per cent, a greater proportion than usual, were large substantial companies capitalized for over $100,000. The following table shows that many of them had been in existence for years. Half of them are known to be in default on mortgage principal and interest, and four had been operating under receiverships for some time. One had been under 77-B before, in 1934 as an involuntary case which was dismissed. One of the holding companies also had been in 77-B in 1935, as an involuntary case in which action was stayed.

Period of Incorporation	Capitalized over $100,000	Capitalized under $100,000*
1935–1937	0	9
1930–1934	2	6
1925–1929	4	4
1920–1924	5	5
1900–1919	4	1
Before 1900	2	0
Total	17	25

* All but two under $50,000.

The twenty-five smaller companies had much shorter records, although a few were successions to individual businesses and partnerships. For the most part, the liabilities of these smaller companies consisted of trade obligations, notes to banks and officers, accrued taxes and wages, etc.

MONTHLY TREND OF 77-B CASES, 1934-1937



77-B APPLICATIONS BY MONTHS

NUMBER

	1937	1936	1935	1934
January	33	84*	104*	...
February	45	72	74	...
March	82*	50	86	...
April	51	51*	112	...
May	52	46	135*	...
June	62*	59	65	104
July	..	41*	82	94
August	..	33	95*	102*
September	..	30	52	62
October	..	54*	95*	73
November	..	35	44	101*
December	..	41*	79	98
Total	..	596	1,023	634**

* Five-week month. ** Twenty-nine weeks.

WEEKLY AVERAGE

	1937	1936	1935	1934
January	8.2	16.8	20.8	....
February	11.2	18.0	18.5	....
March	16.4	12.5	21.5	....
April	12.8	10.2	28.0	....
May	13.0	11.5	27.0	....
June	12.4	14.8	16.3	34.7
July	...	8.2	20.5	23.5
August	...	8.3	19.0	20.4
September	...	7.5	13.0	15.5
October	...	10.8	19.0	18.3
November	...	8.8	11.0	20.2
December	...	8.2	19.8	24.5
Total	...	11.2	19.7	21.9

SIGNIFICANT BUSINESS INDICATORS

COMPILED BY THE STATISTICAL STAFF OF "DUN'S REVIEW"

More detailed figures appear in "DUN'S STATISTICAL REVIEW"

Bank Clearings—22 U. S. Cities

(Millions of dollars)

	Monthly			Daily Average		
	1937	1936	1935	1937	1936	1935
January	27,226	25,262	23,519	1,089.0	971.6	904.6
February	23,718	22,065	19,108	1,078.1	959.3	868.5
March	29,412	26,610	24,354	1,089.3	1,023.4	936.7
April	26,086	24,711	22,809	1,003.3	950.4	877.3
May	23,951	22,473	22,908	958.0	898.9	881.1
June	25,903	26,148	22,392	996.3	1,005.7	895.7
July	......	24,918	24,100	......	958.4	926.9
August	......	21,269	22,313	......	818.0	826.4
September	......	23,927	20,986	......	957.1	874.4
October	......	25,852	24,076	......	994.3	926.0
November	......	24,554	22,241	......	1,116.1	967.0
December	......	31,153	24,089	......	1,198.2	963.6
Total	......	298,942	272,895	......	987.6	904.0

Building Permit Values—215 Cities

By Geographical Groups

Groups:	June 1937	June 1936	Change P. Ct.	May 1937	Change P. Ct.
New England	$5,177,445	$4,596,764	+ 12.6	$6,561,438	— 21.1
Middle Atlantic	21,744,273	50,844,122	— 57.2	28,911,287	— 24.8
South Atlantic	9,963,400	9,793,123	+ 1.7	11,997,505	— 17.0
East Central	27,513,163	18,580,398	+ 48.1	17,783,272	+ 54.7
South Central	8,918,072	8,498,786	+ 4.9	10,046,409	— 11.2
West Central	4,425,362	3,900,565	+ 13.5	4,843,709	— 8.6
Mountain	1,999,995	1,772,228	+ 12.9	2,604,894	— 23.2
Pacific	14,898,596	14,654,120	+ 1.7	15,556,265	— 4.2
Total U. S.	$94,640,306	$112,640,106	— 16.0	$98,304,779	— 3.7
New York City	$11,941,054	$40,011,404	— 70.2	$19,346,563	— 38.3
Outside N. Y. C.	$82,699,252	$72,628,702	+ 13.9	$78,958,216	+ 4.7

World Visible Wheat Supplies

(Thousands of bushels)

1937	U. S. East of Rockies	U. S. Pacific Coast	Canada	Total U. S. and Canada both Coasts	U. K. * and Afloat	Continent *	Total America and Europe
May 1	27,102	4,606	72,230	103,938	62,500	5,200	171,638
May 8	24,445	4,545	68,326	97,316	60,600	5,100	163,016
May 15	21,943	4,439	64,151	90,533	57,300	5,700	153,533
May 22	20,128	3,953	60,689	84,770	56,000	5,300	146,070
May 29	18,184	3,851	58,088	80,123	54,000	5,700	139,823
June 5	16,017	3,701	55,315	75,033	51,800	6,400	133,233
June 12	14,050	3,233	51,320	68,603	49,000	6,600	124,203
June 19	13,002	3,166	48,294	64,462	47,400	6,700	118,562
June 26	14,359	2,291	45,653	62,303	45,300	6,000	113,603
July 3	19,579	2,216	43,010	64,805	44,500	5,700	115,005
July 10	31,326	2,009	40,603	73,938	42,200	5,700	121,838

* Reported by Broomhall.

Dun & Bradstreet Wholesale Commodity Price Index

Groups:	July 1, 1937	June 1, 1937
Breadstuffs	$0.1464	$0.1531
Livestock	.4017	.4024
Provisions	3.0245	2.9416
Fruits	.2363	.2363
Hides and Leather	1.1938	1.2313
Textiles	2.9870	3.0827
Metals	.9129	.8979
Coal and Coke	.0120	.0119
Oils	.6508	.6713
Naval Stores	.1178	.1196
Building Materials	.1256	.1274
Chemicals and Drugs	.8508	.8436
Miscellaneous	.6138	.6183
Total All	$11.2734	$11.3374

(First of Month)	1937	1936
January	$11.1360	$10.3641
February	11.2320	10.0204
March	11.3494	9.9196
April	11.8150	9.8541
May	11.5159	9.8191
June	11.3374	9.7374
July	11.2734	9.8538
August	......	10.1445
September	......	10.1907
October	......	10.2716
November	......	10.2214
December	......	10.7895
Monthly Average	$11.3799	$10.0989

Dun's Index Number of Wholesale Commodity Prices

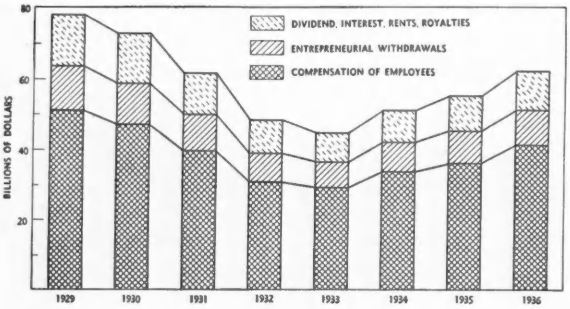
Groups:	July 1, 1937	June 1, 1937
Breadstuffs	$38.070	$38.018
Meat	23.937	23.649
Dairy and Garden	21.367	20.609
Other Food	18.722	18.751
Clothing	34.565	34.945
Metals	26.136	25.523
Miscellaneous	39.616	40.021
Total All	$202.413	$201.516

(First of Month)	1937	1936
January	$206.544	$178.063
February	203.206	179.045
March	205.177	179.601
April	205.550	173.649
May	204.981	173.485
June	201.516	172.136
July	202.413	178.240
August	......	181.878
September	......	182.498
October	......	183.153
November	......	184.397
December	......	192.959
Monthly Average	$204.198	$179.925

THROUGH THE STATISTICIAN'S EYES

ODD AND INTERESTING ITEMS FROM THE MONTH'S RECORD

Our National Income



INCOME PAYMENTS, BY TYPE, 1929-1936—*Department of Commerce—In 1936 income-paid-out reached the highest peak since 1930.*

NATIONAL income payments during 1936 jumped 7.4 billion dollars, marking a gain of 14 per cent over 1935, the largest annual gain of the recovery period and almost twice that of the preceding year. Estimates of the Department of Commerce put the 1936 total income paid out at 62.1 billion dollars, which compares with a 1933 low of 44.9 billion and with a 1929 high of 78.2 billion.

All major types of income payments with the exception of interest, which suffered a slight drop, shared in this rise. Compensation of employees including work relief wages accounted for nearly 5 billion dollars of the 7.4 billion increase from 1935. Another 1.5 billion represented increased dividends, approximately 50 per cent higher than the preceding year, although still 23 per cent below the 1929 level.

Of the major industrial groups, construction, manufacturing, mining, and government showed the largest percentage increases in 1936 relative to 1935. Approximately two-thirds of the 1.2 billion dollar increase in government disbursements represented increased work relief wages.

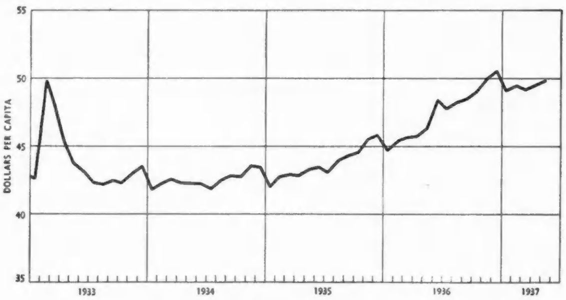
Money in Circulation

IN THE EARLY MONTHS OF 1933, the total money in circulation in the United States stood at the highest figure in the history of the country. Loss of confidence in banking institutions had caused first a slow seepage of withdrawals, then a great deluge which carried out of the banks $563,000,000 in gold and $700,000,000 in currency in one week, the last before the moratorium. Federal Reserve reports indicate that the great hoarding wave brought money in circulation to its peak figure, from which it slowly descended with the reopening of licensed banks and the order forbidding hoarding.

From the latter months of 1933 to May, 1937, money in circulation increased approximately $1,000,000,000. A rise in the total population from 127,000,000 to 130,000,000 during the same period is partly responsible for the advance.

The fact, however, that circulation per capita also evidences this same upward trend indicates that factors other than the increase in population are at work. The increase in circulation reflects in part at least the demand for currency to meet increasing wage payments and expanding retail trade.

Beyond this, the evidence that despite lower wage and trade levels than in 1928, there is at present a larger amount of money in circulation than in that year points to additional influences. It seems to be a reflection of factors intrinsic in the present situation: the continuation of a



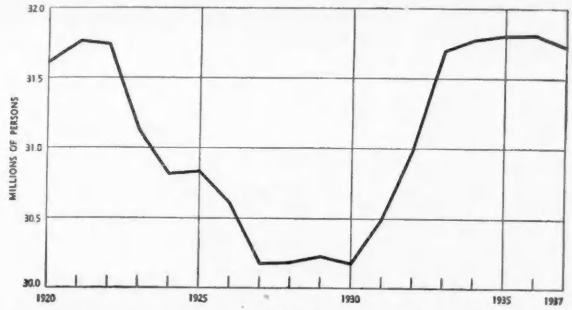
PER CAPITA MONEY IN CIRCULATION, END OF MONTH, JANUARY 1933—MAY 1937—*U. S. Treasury Department—Figures for 1933 have been adjusted for purposes of comparison with later figures which do not include gold coin.*

certain amount of private hoarding, an increasing use of cash in place of checks to meet current payments, and the holding of public funds in currency.

Rural Population Trends

THE TIDE OF POPULATION, which for six depression years had flowed from villages, towns, and cities to the nation's farms, turned back toward urban centers in 1936. Farm population estimates published by the Bureau of Agricultural Economics indicate that the net loss amounted to only 80,000 persons (in 1922, more than 700,000), but it was, none the less, the first since 1929. The excess of births over deaths was 367,000, but 447,000 more persons left farms than came to them.

With only one-fourth of the total population living on farms, one-third of the babies are born to farm women. This means that under normal conditions there will be a



FARM POPULATION, 1920-1937—*U. S. Department of Agriculture, Bureau of Agricultural Economics—In 1936, after a six-year countertrend, farm population decreased, indicating that for the first time the net migration from farms to cities overbalanced the normal excess of births over deaths.*

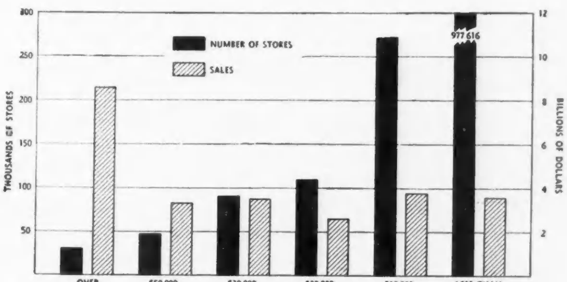
natural migration to cities and towns, a migration formidable enough to outnumber the counter-flow back to farms.

From 1930 through 1935, for the most part, rural youth was backed up on farms. Young persons who normally would have migrated permanently to cities found no employment; others, facing probable failure, feared to go. Only in 1932 was there evidence of a real "back-to-the-land movement," an actual net migration to farms, births excluded.

Little Stores and Big Stores

THAT THE SMALL STORE OWNER, the man doing less than $10,000 a year business, continues to be in the vast majority in retail trade is a fact well known to business men. That, in fact, he makes up 64 per cent of the total number of independent stores, and yet gets no more than 14 per cent of the total sales, is brought to light in a recent volume of the "Census of Business: 1935."

Covering a total of 1,500,000 independent stores, the Census classifies these by income group and by type of store, and presents full figures on the number of stores and the sales of each grouping. Besides this section (from which the figures for the chart are taken), the volume also contains thorough analyses of credit-cash sales and of retail sales by sources.



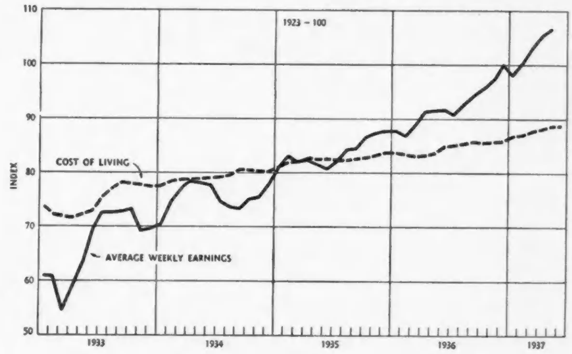
INDEPENDENT STORES, NUMBER, REVENUE, GROUPED BY SALES—*Census of Business: 1935—Stores with sales over $50,000, only 5.1 per cent of the total number, received 46.9 per cent of the revenue.*

Although small-volume stores constitute the majority among these independents, the Census shows that there are marked variations in size among different kinds of business. The food group is largely a small store group, with 47.8 per cent doing less than $5,000 in 1935, and only 0.7 per cent doing $100,000 or over. The latter, however, accounts for 12.4 per cent of the total business. In the automotive group, 48 per cent of the filling stations and 69.2 per cent of the garages did less than $5,000, while 35 per cent of the motor vehicle dealers had sales of $100,000 or more and only 2.0 per cent were in the less-than-$5,000 class.

Real Wages

IN MAY, 1937, the average worker earned 0.5 per cent less than he did in 1929, but paid 11.3 per cent less for his living expenses. According to estimates of the National Industrial Conference Board, he thus gained the highest weekly real wage in the period surveyed, 1914-1937.

A substantial rise in the cost of living has taken place since the low point of the depression, the Spring of 1933.



COST OF LIVING AND AVERAGE WEEKLY EARNINGS, JANUARY 1933—MAY 1937, 1923=100—*National Industrial Conference Board—Real wages for May 1937 were the highest in the period, 1914-1937.*

Living costs in May of this year were 23.8 per cent higher than in 1933, although still 10.3 per cent below the level of May, 1929. Food prices, largely responsible for this rise, advanced 8.2 per cent above last May's level, showing a gain of 44.7 per cent over the level of 1933, and a difference of 15.5 per cent below May, 1929.

Increased costs in food, rents, clothing, and sundries were counterbalanced to some extent by a decline in fuel costs. Coal prices dropped 1.1 per cent lower than in last May and 8 per cent lower than in May, 1929.

Wages, however, have more than kept pace with this advance in living costs since 1933. While the cost of living in May of this year was only 6 per cent higher than in May, 1936, weekly earnings have risen 16.3 per cent. Real earnings, that is, actual weekly earnings adjusted to changes in the cost of living, have gained 9.9 per cent over a year ago, and 12.1 per cent over 1929.

HERE AND THERE IN BUSINESS

WHAT'S NEW AS OBSERVED BY THE AGENCY'S REPORTERS

VETERAN—It was a short time after the oath of President had been administered to Calvin Coolidge by his father, John Calvin Coolidge, justice of the peace, notary public, storekeeper, farmer, and telegraph agent, Latterday pilgrims by the score were coming from every State to quiet little Plymouth, Vt., to visit the now-famous father, touch the Bible, and ask that he reenact just once more the simple inaugural ceremony.

Among his many responsibilities was serving as Plymouth correspondent for DUN & BRADSTREET, INC. And so, as the pressure of entertaining hordes of unbidden guests made each day more arduous, George Carter, manager of the Mercantile Agency's office at Manchester, N. H., one day offered to relieve him of his reporting duties.

John Coolidge's kindly smile of greeting faded. Like many another harassed man, he found release in his work. To receive a request for credit information was to have an excuse to retire to his study alone to fill out a report blank. More, he took pride in his record of fifty-two years of unbroken service, a half-century in which he had rarely been wrong and in which his keen judgment had been vindicated again and again.

John Coolidge knew that his end would be soon when Carter called. As a fitting climax to his Agency career he wished, he said, that he might make out one more report and that after his death another investigator might recheck the subject of his report. As he wished, he did answer another inquiry; shortly after he did die. The report was rechecked, and for the final time he was, of course, right.

Two More—Continuing its campaign for the man-in-the-street through chemical research, E. I. duPont de Nemours has uncovered two more boons. One is a double-duty perfume treatment for insecticides; not only does it lessen their usually disagreeable odor, but it also increases their efficiency a notch by attracting more insects.

The second benefice is a cellulose seal which protects Government liquor tax stamps. It probably cannot make bottle opening any more difficult than it is already, and allegedly it discourages re-use of the bottles of licensed distillers.

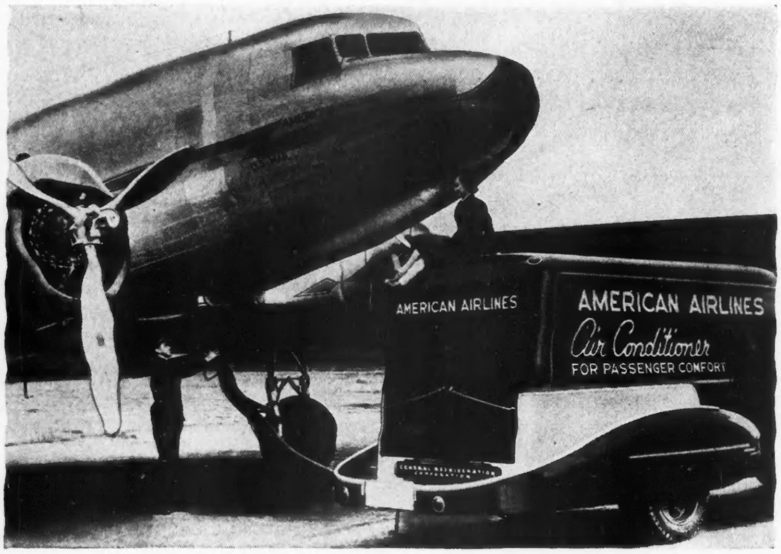
2000 A.D.—Not long ago, in New York's American Radiator Building, an exhibit of architectural drawings envisioning the year 2000 A.D. showed not a single radiator. Heat there will be, according to two young Columbia School of Architecture graduates, but not from radiators, and only here and there in rooms which in other spots are somewhat chilly, *i.e.,* as much as twenty degrees below zero.

Sixty-three years hence all buildings can be constructed almost entirely of glass which will admit infra-red rays. Heat from the sun will be gathered, stored, and rebroadcast as needed. Any person who is in the direct, uninterrupted path of infra-red rays, which will be sent out from four directions, will be adequately warm. Somewhat in doubt, evidently, is the fate of persons who may have to sit in the middle of a crowded theater.

One Day Only—To slaves of the hunt-and-peck system who cannot find time to learn touch typing, the Tuchertu Company of New York promises new hope. Anyone, says president Philip Gross, can learn in an hour—well, a day anyway.

Mr. Gross does not promise speed after a day's tutoring, just accuracy. His teaching impedimenta include no books or wall charts. Instead his pupils place themselves squarely before a card-

TWELVE OF THEM—*Purchased by the American Airlines, Inc., built by the General Refrigeration Corp., the latest in airplane air conditioners is entirely self contained; mounted on high speed truck chassis. In Summer or Winter, the temperature of the plane can be brought to 70 degrees in approximately ten minutes.*



board box, tilted upward at the normal keyboard angle. Also arranged like a keyboard, forty-two letters and numbers appear on the box. A separate, sliding disc covers each one at a finger's touch.

To begin, a student starts a phonograph, sits before the cardboard box, listens, and covers and uncovers the characters as Mr. Gross's records direct. From then on evidently it's up to the needle and his own practising.

Henrys—Like all good manuals, "A Manual for Selling Hosiery," published in the National Retail Dry Goods Association's "Bulletin" begins with a history. But unlike the prosaic lesser ones, this history boasts royalty, a cleric and international intrigue.

First to wear silk stockings was Henry VIII. His, and all other stockings for many years after, whether cotton or wool or silk, were hand-knitted and their manufacture was a long, arduous process. Sooner or later, inevitably, some man was to grow impatient with the tedious work which consumed so much of woman's time. The only surprise was that the impatient one should turn out to be none other than the Rev. William Lee of Nottinghamshire.

The Rev. Mr. Lee's providential solution was a machine operated by hand and foot power which produced frame knitted stockings of wool, eight loops to the inch, a needle for each stitch. Nine years later he succeeded in developing his basically sound principle to twenty loops to the inch, thus opening the way for silk as well. On the familiar grounds that the machines would create unemployment in the hand-knitting industry, Queen Elizabeth refused him patents on either one.

An ambassador from France, however, was lurking nearby, and Lee crossed the Channel in a huff, set up his mills in Rouen. But again there was trouble. Henry IV was murdered; Lee's royal support evaporated. So back across the Channel he shuttled, taking with him his machines. England prospered. France lost a golden industrial opportunity.

TRANSPARENT, FEATHER-WEIGHT—*Under patents by Goodyear Tire & Rubber Co., Richards, Boggs & King, Inc., manufacture other products made of the new material, Pliofilm, such as shower curtains, hat boxes, garment bags, etc. The newest one is an amber bag designed to slip over auto headlights for better vision in fog and snow.*

Mouse—Last year a share of stock in Eldorado Gold Mines, Ltd., at Port Hope, Ont., was selling for $1; this year for between $3 and $4. Last year there were in existence in the world about 1,000 grams of radium (valued at $25,000 a gram), with Belgium maintaining a monopolistic position through her reserves of at least 150 grams. This year Eldorado is mining Canada's new-found supply and hoping for 200 grams. This and more *Canadian Business,* Chamber of Commerce periodical in the Dominion, tells of the lusty infant industry.

Rewarding, but tedious, the method of extracting one gram of radium from the uranium oxide in every ten tons of pitchblende includes twenty-three different processes of evaporation, extending over several weeks. And for every ton of pitchblende the refining process requires seven tons of chemicals. Surely mountains labor that a mouse may come forth.

But each mouse is a small fortune. The peak has been $170,000 a gram, and even at its more modest levels the price of radium has drawn scathing attacks from the cancer-minded International Medical Fraternity. Somewhere in the price of Canadian radium, whatever it turns out to be, there will have to be the cost of prospecting. No Forty-Niner, Gilbert La Bine discovered the new source of supply in a manner befitting the times. Looking down from a plane he noticed peculiar mineral formations below, came back on foot, and there was radium.

Restricted—Lake Pontchartrain, the salt water arm that reaches in from the Gulf of Mexico, was for many years only a nuisance to the lakeside city of New Orleans. Unattractive and a menace to health, its shores were lined with marshes, deforested swamps, and clumsy, fragile fishing camps. But no longer. A reclamation project begun in 1930 and now approaching completion has added 2,000 acres of man-made land, edged with a five and one-half mile seawall.

Most of the new-made area will be divided into 1,200 lots, to be sold to citizens who promise to build a home within three years. Other restrictions appear less easy to comply with. Says the Association of Commerce: "Lots are being laid out so that no two houses will face or be close alongside each other. . . . Children will be able to walk to school without crossing the street." Any home buyers from Missouri?

THE BUSINESS BOOKSHELF

BUSINESS . . . FINANCE . . . ECONOMICS . . . GOVERNMENT

IN THE HOPE that one day there can be light where at present there is much heat, The Twentieth Century Fund, Inc., is at work on a study of the role of the giant corporation in American life. When at last the report, or series of reports, is presented to the public it will be one which takes definite stands, which calls for action. The imaginations of a committee headed by prominent industrialist Ralph E. Flanders will have played upon the raw data of countless charts and tables, and their experience will have made interpretations ending in recommendations.

Meanwhile, as factual material for each of the early chapters is gathered, it is published by the Fund, well-organized, but still in a semi-raw state, with economic judgments and suggestions withheld. The first of these sub-reports was *Big Business: Its Growth and Place,* which prepared the ground, defining the extent of concentration of assets and income. The second, *How Profitable Is Big Business?* is now at hand. Basic data for size comparisons are taken from the Bureau of Internal Revenue's "Statistics of Income"; for study of "big business" by itself, from annual reports of corporations.

Logically one proceeds from the title question to a comparison of the profitability of several arbitrarily chosen sizes of enterprises, and from there to the question "What size is the most profitable?" If by profitable one means profit on gross income, the largest corporations, according to the Fund's statistics, are the most profitable, and there is moreover a well-defined trend from the smallest through to the largest class.

On the other hand, if by profitable is meant net income on net worth or total profit (net income plus interest charges) on total capitalization (net worth plus borrowed capital), a very different answer emerges. Among money-making corporations the largest class was the least profitable and the smallest the most; among money-losing corporations the largest class was the least unprofitable and the smallest the most. In other words " . . . bigness seemed to operate as a stabilizing factor . . . "

There appears also to be a definite inverse relationship between size and

CURRENT READING

BOOK	AUTHOR	SUMMARY
THE BACKWARD ART OF SPENDING MONEY, by Wesley C. Mitchell. McGraw-Hill, 415 pages, $3.	Professor of economics, Columbia; director of the National Bureau of Economic Research; recently chairman of the President's Research Committee on Social Trends.	A volume of collected essays written over a period of twenty-five years on such varied subjects as national planning, Thorstein Veblen, money in economic theory, research in the social sciences, and Bentham's felicific calculus.
COMMODITY PRICE INDICES, by Herbert N. McGill. National Association of Purchasing Agents, 47 pages, $1.	President of McGill Commodity Service, Inc.; for many years commodity editor for the Babson Statistical Organization.	A brief discussion of the movement of commodity prices, followed by separate, detailed analyses of the construction and action of thirteen of the principal commodity price indices.
PROSPERITY AND DEPRESSION, by Gottfried von Haberler. League of Nations, 346 pages, $2.	One-time professor of economics at University of Vienna; member of the Economic Intelligence Service of the League of Nations; assistant professor, Harvard.	An attempt at a coherent, synthetic theory of business cycles by sifting the theories which already exist, adopting those principles on which there is agreement and reconciling other cycle theory segments which are apparently contradictory.
CHECK LISTS OF ADVERTISING, SELLING, AND MERCHANDISING ESSENTIALS, by Carroll B. Larrabee and Henry W. Marks. McGraw-Hill, 392 pages, $3.50.	Respectively managing editor and manager of the readers' service department of *Printers' Ink*.	Organized and published for the first time together, a number of marketing check-lists accumulated over a period of years by *Printers' Ink* publications, some assembled by staff members, others the work of practising merchandisers.
PROBLEMS IN LABOR RELATIONS, by Herman Feldman. Macmillan, 346 pages, $2.75.	Industrial consultant; professor of industrial relations, Amos Tuck School of Administration and Finance, Dartmouth.	Two hundred and fifty cases, most of them actual occurrences, illustrating various practical problems of labor relations; to supplement other, more theoretical, labor problem studies.
HOW PROFITABLE IS BIG BUSINESS?, by the Corporation Survey Committee. Twentieth Century Fund, 201 pages, $2.	Committee composed of Ralph E. Flanders, chairman; A. A. Berle, Jr., William J. Donovan, Dexter M. Keezer, Harry W. Laidler, Laurence H. Sloan.	The second of a series of reports summarizing the results of a study of "big business"; a comparison of the profitability of giant corporations, moderate-sized ones, and smaller enterprises. Reviewed in this issue.
SEVEN KINDS OF INFLATION, by Richard Dana Skinner. McGraw-Hill, 258 pages, $2.50.	Vice-president of Pell, Kip & Skinner, advisor to several New York savings banks on bond investments and money markets.	With no other tools than daily newspapers and simple arithmetic, how a layman can protect himself from suffering losses through any one of many possible kinds of inflation.
EASY MONEY, by Lionel D. Edie. Yale University Press, 183 pages, $2.	Economist, author of books on capital, gold, and the money market; president, Capital Research Corp. and Edie-Davidson, Inc.	Among the first to advocate an easy money policy in the early thirties to relieve debtors, the author now favors firmer money rates to protect creditors, to make inflation less likely.

turnover. The smaller corporations do more business in relation to their invested capital than the larger ones. This explains why the smaller corporations show large rates of profits and losses on capital and the larger ones small rates. (The profit or loss on gross income multiplied by the turnover equals the profit or loss on capital.)

Of interest in any discussion of a tax on undistributed profits are the Fund's findings on dividend payments in 1933. The smallest money-making corporations disbursed 36 per cent of their net income, the medium class 43.5 per cent, the giant group not only its entire profits, but also an added sum taken from the profits of previous years.

Turning from income statements to balance sheets, one finds several advantages on the side of the larger corporations, advantages which seemingly should make them more depression-worthy. First, a greater proportion of the capital of larger enterprises comes from stockholders and a lesser share from lenders than is the case with smaller concerns. Borrowed capital some day must be repaid, and as a part of regular costs interest charges must be met. Stockholders' capital is a permanent investment, and in the short run, at least, dividends are not costs.

Again, a larger share of the larger corporations' borrowed capital has fixed maturity dates; a larger share of the smaller corporations' borrowed capital is subject to the call of creditors. Finally, the larger corporations have a greater percentage of their total capitalization in the form of surplus and undivided profits.

SYPHILIS IS BAD BUSINESS

(Continued from page 17)

are given in terms of modern knowledge of the disease and the practices of the more advanced industrial programs. The following points might summarize our present point of view:

Blood tests should be a part of the routine physical examination for employment and of periodic re-examination. A positive result should not be ground for the rejection of applicants or the discharge of employees. Treatment may properly be insisted upon, especially in jobs hazardous to the worker or to others.

Unless highly competent treatment can be arranged through private physicians, public or private clinics, at prices ordinary wage earners can afford, the industrial medical service should treat syphilis.

Confidential Findings

In line with the best practice of industrial medical officers, the privacy of the medical officer's findings should be maintained as a matter between the medical department and the employee. So long as sick leave must be passed upon by the medical officer the diagnosis of the man in the infectious stage is his own business. So long as he takes treatment and has not progressed into mental or neurological complications he is not a management problem.

The factory group is relatively homogeneous. It lends itself well to a thorough educational campaign which will give employees an understanding of the problem of the disease. Upon that campaign will depend co-operation in getting workers to take their blood tests and in holding the infected week after week through the long regime of treatment. Prophylaxis, which is more

difficult to handle by mass campaigns, should be a part of the educational effort of the industrial medical service.

One mistake of a paretic executive, two or three large compensation claims, may cost a company much more than a campaign against syphilis. But the public health program in the community also needs industry support. The largest plants may add a laboratory technician and conduct the blood tests in their own laboratories; but for the most part, the blood tests will be performed in co-operation with State and city laboratories. Adequate facilities and trained personnel are the next big need. The public, I believe, is already committed to the policy. Economically the program is one which will pay dividends to industry and to the community. The cheapest thing we can do with syphilis is to cure it.

HOW HAS 77-B WORKED?

(Continued from page 21)

In fact, the record shows an increase in large cases requiring more than twelve months. This may be because in the early months of the law many of the cases filed had already made considerable progress towards a settlement through the existing processes.

It is inevitable that practical application of a new law should lead to suggestions for improvement. Many amendments to clarify legal procedure and to guard against fraud and abuse are before the present Congress in the form of the Sabath Bill, proposed by the House Investigating Committee, the Chandler Bill incorporating the changes suggested by the Sub-Committee of the House on the Judiciary, and the Lea Bill, relating to activities of the SEC, but thereby affecting reorganizations. Records similar to those presented in this article, to be made by Dun & Bradstreet at regular intervals in the future, should contribute to the evaluation of such amendments as may be eventually adopted.

ECONOMIC PLANNING VIA CHAIN-STORE TAXES

(Continued from page 14)

will not necessarily destroy the chains. And, to the extent that individual States such as California and New York do not join in the movement, and rates in other States are below the Louisiana basis, the burden will be less than the above estimates.

The Three Positions

Three main points of view emerge relative to the problem of competition among channels of distribution. The first endorses strongly the use of graduated license taxation by States to deal with the chain-store problem. This position certainly implies the proposition that the best solution to the apparent difficulty is to penalize or even destroy the chains. Special taxation puts an added burden on chains as they grow in size. It does not require any change in their method of operation, providing they are able to survive at all.

One can assume that the operating policies of the chains already represent the best guess of the operators as to the procedure which will yield the greatest return under the circumstances. Their competition will presumably take exactly the same form as before the taxes were established, except that certain marginal outlets may be closed. In general, therefore, the effect of the license taxes will be rather in the extent to which they reshape the channels of distribution by discouraging the further development or destroying the existing structure of chains.

This position was analyzed simply and clearly in a decision of the Florida Supreme Court. The court stated that members of chains enjoy certain chain system advantages and opportunities, that chains and independents are competing with each other, that chains are proving more successful in the competition, that the chain-store tax is intended to preserve a proper and safe economic balance between the two classes of competing business, as well as serve the dominant purpose of raising income for the schools. The extent to which this point of view is held is evidenced by the extraordinary spread of graduated license taxation in the last several years.

The second point of view includes those likewise seeking to curb the chains, who have endeavored to distinguish between proper and improper advantages apparent in chain operation, and then by legislation to prohibit the so-called unfair practices. Such an approach is not necessarily limited to chains but is usually extended to include other forms of mass distribution. This point of view lies behind the drive for legislation such as the Robinson-Patman Act.

In general, it has directed its attention to the buying policies of the large distributors, arguing that they are able to obtain discounts and special concessions far in excess of those justified by economies created or services rendered. Because of the importance of the large purchase to the seller, he is helpless in the face of the demand of the mass distributor that he be given a differential price. Consequently, the chain outlet is described as obtaining its products at a much lower cost than the independent retailer. This line of analysis naturally leads to the conclusion that these excessive discounts and allowances should be controlled in some way. To date, the logical difficulty in this approach has been in devising a satisfactory and simple method of determining when these discounts are "excessive" and of enforcing such determinations.

Finally, there is the group which is bitterly opposed to either type of effort to control the situation. It sees our modern marketing procedure as the most wasteful step in the economic process at present. It welcomes any experiment or new form which will lower costs to the ultimate consumer. Such individuals seriously resist any legislation which appears to restrict freedom in the area of distribution methods, insisting that the processes of economic evolution must not be hampered. The normal processes of development can best work out the most effective system of distribution without artificial aid or hindrance from legislative bodies.

The above discussion does not cover fully the chain-store tax picture. Other States have such laws under consideration, and on June 18, 1937, the House of Representatives accepted by a vote of 155 to 43 an amendment to the District of Columbia tax bill which would establish a graduated license tax reaching $550 for stores in excess of 100. The proposed law, which followed the Louisiana method of using total stores in the chain as a basis, was subsequently discarded by the Senate. Furthermore, in addition to State laws, there are various local taxes which directly or indirectly place special burdens upon the chains. For example, Fredericksburg, Va., imposes a tax of $250 for each store over one, a provision held valid by the State Supreme Court several months ago. And Portland, Ore., enacted in 1932 a graduated tax from $6 for one store to $50 per store over twenty, which was approved both by popular referendum and the State Supreme Court.

Evolution

These are all parts of a dynamic picture, the evolution of retailing. Unfortunately, much of the discussion of the problem is white-hot with emotion. The interested parties are making increasing efforts to capture popular support. There is much propaganda about, some of which could never survive any critical scrutiny. And yet, it is an economic area in which every individual has a definite stake. We all are continually the customers of retailers. The purposes underlying the laws range from that of revenue to that of destroying the chain method of dis-

tribution. The variety in form taken by these laws would tend to demonstrate that there is much need, first, for a clarification of purpose, and then for a more studied approach to its accomplishment. The wide differences among the States may be welcomed by some as an expression of their individuality. To others, the differences may be regarded as indicating a rather unscientific attempt at economic planning.

LEGAL DECISIONS OF INTEREST TO BUSINESS

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Power of Reorganization Court Over Protective Committee

SECTION 77-B of the Bankruptcy Act attempted to abate the abuses incident to the virtually uncontrolled operation of protective committees in equity receivership reorganizations by subjecting committees to judicial supervision rather than by minimizing their office in the reorganization scheme. One of the functions still reserved almost exclusively to committees is that of reporting to security holders on the reorganization status and the virtues and deficiencies of particular proposals.

The context and tenor of committee solicitations and circulars may exert a determining influence upon the make-up of the reorganization plan, and may even prevent the consummation of any plan and thereby profoundly affect the interests of the various claimants. Some sort of supervision over committee communications is therefore necessary if recalcitrant committees or those seeking to serve interests adverse to those of the investors are to be prevented from thwarting or dominating a reorganization. Accordingly, even though specific statutory authority is lacking, some courts have adopted the practice of prescribing or inspecting the contents of committee literature.

A plan desired by the debtor, and supported by a committee with which 86 per cent of the bonds had been deposited, was not approved by the necessary two-thirds of the bondholders because a minority group of bondholders, believing that the proposal showed undue solicitude for an insolvent debtor with no equity in the property, had induced a sufficient number of bondholders to file dissents. Since some investors had apparently switched their votes as many as three times, the Court issued an order restraining all parties from further written communication with the security holders.

Subsequently a new plan was advanced and approved by the Court. Requisite bondholder consent could apparently have been obtained to this proposal since it eliminated the objectionable features of the old plan. But the debtor petitioned for an order enjoining all other parties from communicating any new plan to the bondholders until it had enjoyed a "reasonable opportunity" to obtain acceptances to a slightly modified version of the old plan. Instead, the Court entered an order continuing the injunction in force as to the petitioner but lifting it to allow the proponents of the new plan to circularize the bondholders. The debtor appealed on the ground that its right of free speech had been violated, but the order was affirmed without opinion by the Circuit Court of Appeals for the Second Circuit. (*In re Madison Hotel Corp.*, S.D.N.Y., aff'd without opinion, C.C.A. 2d).

Use of Patents and Copyrights In Restraint of Trade

THROUGH cross-licensing agreements with other large manufacturers, the defendant controlled indispensable patents on communication equipment. The plaintiff brought a suit to enforce the issuance of a license to him, alleging that the defendant's control was a violation of the Sherman Act. Held, suit dismissed. *Andrea* v. *Radio Corporation of America,* 14 F. Supp. 226 (1936), aff'd, 88 F. (2d) 474 (C.C.A. 3d 1937).

Courts have been slow to apply the principles of the anti-trust laws to combinations involving patents or copyrights. The patent law gives patentees and copyright owners the "exclusive right to make, use, and vend . . . " and it is clear that the anti-trust laws do not affect the right of the owner of a single patent or copyright to license whomever he chooses at whatever rate he pleases.

While nothing in the patent law expressly limits the manipulation of patents, succeeding cases have considerably lessened the powers originally thought to have been granted to patentees and copyright holders. The right to control resale prices has been denied. The Court has invalidated so-called "tying contracts," whereby use of the patented product is granted only to those purchasing other products from the patentee.

The trade control in the principal cases, however, is less clearly affected by the Sherman Act since it was exercised by the patentee directly upon the marketing of the patented and copyrighted articles themselves. But there is some indication that application of the Sherman Act will not be affected in any case by the fact that the combination attacked is composed of a number of patents.

OVER THE EDITOR'S DESK

CONTRIBUTORS . . . COMING NEXT MONTH

SURGEON-GENERAL Thomas Parran's (pages 15-17) career in the United States Public Health Service, began in 1917 with his appointment as assistant surgeon. In 1925 and 1926 he served as full surgeon and in the latter year was elevated to the post of assistant surgeon general, which he held until being promoted to his present rank in 1936. In twenty years of war and peace he has also been called upon to direct medical projects in four States.

For many years Dr. Parran was chief of the division of venereal diseases of the Public Health Service. In the face of widespread reluctance even to acknowledge the existence of social diseases, his continued efforts in this phase of medicine have earned him recognition not only in his own country but abroad as well. It is more

DR. THOMAS PARRAN

than a coincidence that his appointment as surgeon-general was followed shortly by the Public Health Service's nation-wide campaign to dispel the ignorance which surrounds the subject of venereal diseases.

The most recent, and thus far the most spectacular, development which may be traced to Dr. Parran's pioneering is the test being made in Chicago. One million citizens will be given an opportunity to undergo free, secret medical examination, and if prejudice does not intervene in too many instances, the first accurate measure of the extent of infection in that sample city will result.

WILLARD L. THORP (pages 8-14) and Walter Mitchell, Jr., (pages 22-24) are well known to readers of DUN'S REVIEW. In addition to being editor of the REVIEW, the former is, of course, Director of Economic Research for DUN & BRADSTREET, INC.; the latter, as its Director, issues another report on the findings of the DUN & BRADSTREET Retail Survey. A member of the Research and Statistical Division, Dorothy S. Davis (pages 18-21) has regularly been the anonymous author of the monthly articles which analyze the trend of failures and corporate reorganizations.

DURING the past year, much has been written about the surtax on undistributed profits—known generally and more simply as the surplus profits tax.

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More detailed breakdowns of those statistical data originally compiled by the publishers—business failures, bank clearings, building permits, wheat and other grain supplies, and price indexes which are summarized and interpreted each month in DUN'S REVIEW (see pages 35-39)—are published monthly in DUN'S STATISTICAL REVIEW, tables only, no text, $1 a year; $2 outside the United States.

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Both as a revenue measure and as an instrument to effect changes in business practice, the tax has been either good or bad, practical or impractical, economic or uneconomic very largely according to whose report one read, rather than by any other criterion of measurement.

In the first few months after the levy was enacted there were, after all, no alternatives to axe-grinding and mere speculation. Prophesies, both dire and Utopian, were available in large numbers. Now that a year has passed, however, it is possible to base an appraisal on fact.

As these pages go to press, DUN & BRADSTREET'S Research and Statistical Division is completing a survey of the actual effect and incidence of the surplus profits tax in a multiplicity of cases. A report next month will consider the tax objectively, weighing criticisms and defenses in the light of this survey.

NEXT MONTH'S tax study will suggest tentative answers, at least, to these specific questions:

How much larger a share of earnings did corporations distribute in dividends in 1936 than 1935?

What are their dividend plans for 1937?

What use was made of other forms than cash as a means of distributing profits and at the same time conserving working capital?

To what extent have corporations turned to increased expenditures—advertising, wage increases, higher salaries, and so on—as a method of lowering tax liability?

How did the undistributed profits tax burden compare with the normal income tax paid by corporations in 1936?

Does the tax hit the little fellow harder than it hits his big competitor?

GHOSTS

THE eleven-year-old had sat quietly while the phonograph sped through a record which filled the room with the unconventional dissonances of an ultra-modern string quartet. At the end, with that uncanny faculty for picturesque expression which a child has, she said, "I don't like it. It sounds like ghosts, and I don't believe in ghosts."

That is not bad logic for art criticism, but the similar line of reasoning in economic problems is dangerous. Nevertheless, there is an unfortunate tendency to accumulate a collection of economic ghosts, which may be trotted out whenever necessary, to save both breath and mental effort. The process of damning by reference, of argument by name-calling, convinces everyone who already agrees but makes few new converts. To label a thing Communist or Fascist, radical or conservative, or to say, "I don't like it. It sounds like NRA, and I don't believe in NRA," may be a proper starting-point for a carefully developed discussion, but such a statement always needs the support of logic and reason. Ghosts may have the initial effect of causing fright, but they have a way of embarrassing their sponsors by vanishing under scientific scrutiny.

Willard L. Thorp.
EDITOR